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FROM JANUARY TO JUNE 1952

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PROBLEMS AND PROSPECTS FOR 1952

IT is generally agreed that the most pressing of all the problems confronting this country as 1952 is ushered in, is that engendered by inflation. Balance of payments difficulties, rising prices and the pressure of wage demands are in a large measure the results of inflation. It is clear, therefore, that if 1952 is to see the recovery of the economic ground which was lost in 1951, a determined attack must be made on this root cause of our troubles.

Before describing in greater detail the prospects of overcoming the present economic difficulties, it will help if a brief discussion is devoted to the situation as we find it as 1951 gives place to 1952. When the balance of payments position for the year is worked out it will probably show a deficit of about £475 million. Britain and the sterling area had accumulated a debt of some £230 million with the European Payments Union, some of which had, perforce, been settled in gold. Imports in 1951 reached the unprecedented figure of £3,900 million. Price increases alone accounted for some £1,000 million of this when compared with the 1950 figure of £2,600 million. Exports, including re-exports, should amount to £2,725 million against £2,255 million in the previous year. The price increase here is only £400 million. The rapid deterioration in the terms of trade which occurred in the first half of 1951 has thus been a major cause of the great setback in Britain's overseas trade position.

The shortage of raw materials which developed early in 1951 did not have the serious effect on production that was anticipated. In fact, it is highly probable that industrial output was some 4 per cent higher than in 1950. On the other hand, a shortage of steel has rapidly come to a head in recent months and this bids fair to prove the greatest physical handicap in 1952. Little information has been forthcoming about the progress of the rearmament drive but it is believed that the programme is running into difficulties on account of labour complications. Both capital investment and personal consumption have been higher in 1951 than in 1950. The development of the rearmament programme and the higher rates of capital investment and personal consumption have, however, been made possible only by the growing deficit on external trading account. Profits appear to be running at a much higher level than twelve months ago, largely, it is thought, as a result of the inflationary situation. Prices and wages have both shown considerable increases in the year.

Amongst the earliest acts of the new Government were measures to restrict imports with a view to bringing the balance of payments position more under control, and steps designed to bring about a

change in the nation's monetary policy. These steps involved a slight increase in the bank rate, a large reduction in the floating debt, an appreciable rise in the re-discount rate on Treasury bills, and a more stringent policy in the granting of loans and overdrafts. These particular measures indicate a willingness to use fiscal methods for curbing inflation as well as physical ones to contain it.

Although 1951 has ended with the nation's economic position as grave as at any period during the last four or five years, there are a number of hopeful signs for 1952. In the first place, the overriding importance of combating inflation is well appreciated, and in the second, it appears that orthodox methods are again in fashion. We can expect some rise in interest rates generally; the money market has already discovered that it must on occasion pay economic rates for its accommodation. Not only will accommodation be dearer but supplies will be scarcer and this applies to business borrowings as well as to money market transactions. Savings are likely to increase and the disinflationary effect of these related measures may be considerable.

In essence, inflationary pressure is caused by the competing demands of capital investment, personal consumption, exports and government expenditure on limited resources. Shortages of steel and other raw materials may prevent more than a small increase of, say, 4 per cent in manufacturing output during 1952. A good supply of steel from America and a generous recruitment of foreign labour into the coal mines and to the railways would yield good dividends. Not much direct relief can, however, be expected from increased production and the emphasis must be mainly on reducing the claims against resources. Reducing the pressure of demand will contribute indirectly to increased productivity since it will prevent scarce raw materials and components from being dissipated over a wide field of production. Since exports must be maintained and if possible increased, the need for even greater restraint in consumption and capital investment is imperative. The competing claims of exports and rearmament on the engineering industry is likely to prove one of the most difficult specific problems of the year.

As we have said, capital investment may well be reduced by the fiscal measures already taken or planned. In Canada and U.S.A. the discouragement given to hire-purchase buyin been a most potent factor in reducing the de for consumer durable goods. No hint has from Whitehall that hire-purchase trading be restricted by law. But banks were instr in the latest directive to the Capital Issues Co mittee not to provide accommodation for hi purchase. Direct controls over industrial bui ing still exist and can be used to curb cap expenditure of this type. The abolition of ini allowances will be effective from next April a their cessation may add yet another discourag factor to capital investment in plant machinery.

Consumer demand can best be reduced Budgetary policy and we must expect that CHANCELLOR will plan for a large surplus as S STAFFORD CRIPPS did in 1948 after the balan of payments crisis of the previous year. Th statutory limitation of dividends will not appe on the agenda but industry will be expected t exercise strong restraint voluntarily. It is we known that some form of excess profits tax wi be introduced in 1952, and that consideration being given to a definition of profits. At th moment there are few signs of any restraint i wage claims and it may be that the only way i which such restraint can be fostered is by tying wage rates very loosely to the cost of living. For this to be of any value in avoiding a cost inflationary trend, wages would have to lag behind the cost of living, and then change to a smaller extent, otherwise such an arrangement would be inflationary in character.

The Government has its own part to play in the fight against inflation. Waste in current expenditure and extravagance and lack of foresight in capital commitments are dangers which must always be guarded against. In addition to the cuts already asked for by the Minister, it may well be that the school-entrance age will be raised to six as one measure of economy. The building of houses for sale is another. If the Government succeeds in putting its own affairs in order and substantially reduces capital expenditure, the general public cannot complain if they are called upon to make sacrifices. Economic independence cannot be achieved without them and they may be severe. The prospects are grim because the problems are great. Nevertheless a good start has been made in their conquest.

REVENUE DEPARTMENTS
APPROPRIATION ACCOUNTS

THE appropriation accounts of the revenue departments for the year ended March 31st, 1951, and the report of the Comp-…ller and Auditor-General on them, mentioned …iefly in our last week's issue, make interesting …ading.[1] Although the accounts are concerned …nly with what the departments cost to run, … FRANK TRIBE gives in his report some …cations of the tax collected by the Inland …enue and the Customs and Excise.

Inland Revenue Tax Outstanding

…ring the year the Inland Revenue paid into …e Exchequer £2,038,389,000. This was ½ per …nt more than the Budget estimate but 3½ per …nt less than the previous year. Death duties …oduced 5 per cent less than the estimate of …95 million. Income-tax was down on the …evious year by £34 million but sur-tax was … by £6½ million. The tax outstanding at the …d of the year was £850 million, of which more …an £500 million was for 1949–50 and earlier …ars. However, it is estimated that of the £850 …illion, only £307 million will be ultimately …ue when all adjustments have been made. …oreover, a good deal of it represents tax not …ayable until July 1st, 1951.

Remissions and Amounts Abandoned

…lmost £1 million of tax was remitted by extra-…tatutory concession and about a third of this (including £21,855 sur-tax) was due to the CHANCELLOR'S decision, announced on July 6th, …949, that no further notification of liability …hould be issued in respect of wartime service …ay prior to April 6th, 1947. Another third was …emitted on the grounds of equity and the balance …ither because of poverty or because the amount …nvolved did not justify proceedings. Tax written …ff as irrecoverable amounted to £1½ million, …ainly on account of bankruptcy or liquidation. …he total amount written off, at £2½ million, …as £624,000 up on the previous year.

P.A.Y.E. Under-deductions

…nce the inception of P.A.Y.E., there has been …radually mounting total of tax under-deducted which cannot be adjusted against the codings of subsequent years either because the taxpayer cannot be traced or because he has given up employment. During 1950 all such under-payments for years prior to 1948–49 were reviewed and as a result the Board of Inland Revenue concluded that most of them would prove irrecoverable and that full investigation would not be worth the necessary manpower. They decided to write off all under-payments of less than £15 without further inquiry and that larger amounts be written off if reasonable inquiries satisfied the Inspectors concerned that the taxpayer was not currently liable and had no readily realizable resources. The Board estimated that £3 million to £3½ million, due from 800,000 taxpayers, would be written off, and that of this sum, up to £3 million would be for 1944–45 'or earlier years'. Although P.A.Y.E. dates from 1944–45 itself, there was of course a modified deduction scheme in earlier years. The Board considered that the additional tax which might have been collected if a full investigation had been made would hardly exceed £2 million.

Fraud and Evasion

Investigations into under-assessments, commonly known as back duty cases, were completed in the year ended March 31st, 1951, to the number of 2,838, the total amount payable under these settlements being £7,469,568. Of these cases, 250, which brought in £2,346,935, were dealt with by the Inquiry Branch. These results are compared with those of earlier years in the following table.

Year ended March 31st	*Number of cases*	*Total charges raised (£)*
1951	2,838	7,469,568
1950	1,886	5,054,070
1949	1,802	4,432,384
1939	2,774	3,131,410

The promised stepping up of the drive against evasion is clearly taking place but it would seem that the law of diminishing returns is beginning to operate. Of the cases completed in the year ended March 31st, 1951, only 15 per cent were undertaken as a result of the taxpayer's voluntary

[1] …M.S.O. 1s 3d net.

disclosure. Over 50 per cent arose from the Inspector's examination of tax returns and accounts.

The above figures of pecuniary settlement include sums recovered in respect of penalties incurred. For the last year £1,735,049 was included on this account, the corresponding figures for 1948–49 and 1949–50 being £1,291,092 and £1,059,856 respectively.

Miscellaneous Receipts

In the £1,384 shown for marriage gratuities refunded by reinstated officers, against an estimate of only £250, there is perhaps evidence of greater economic stringency inducing married women civil servants to resume their jobs. Among other receipts are £16,070 recoveries of E.P.T. post-war refunds, against an estimate of £10,000; and £1,493 earned by Inspectors of Taxes from local authorities. A curious item among the various receipts is £17 'money found on official premises'. Can this be sums left under the blotter by satisfied customers?

Inland Revenue Expenditure

The total amount expended by the Inland Revenue in the year ended March 31st, 1951, in salaries and expenses was just over £24 million. This sum does not include rents, and indeed £23 of the £24 million represents salaries and superannuation and about half the remainder is for travelling and removal expenses. Services rendered by local authorities cost £30,000 against the estimate of £20,000, which is perhaps an indication of the anti-evasion drive, the local authorities having been requested to supply certain information to Inspectors.

Losses by Fraud, Default and Accident

Losses by fraud, default and accident totalled £7,776 against an estimate of £6,000. Eight over-repayments of income-tax alone took over £3,000 of this, and excessive payments of post-war credit took nearly £2,000. There were only three cases of theft by officers of the department: one stole payments totalling £147, another £107 and a third £73. All three were dismissed and prosecuted. Losses incurred by receiving and paying officers totalled £275. Some hundreds of pounds were lost by the going astray of income-tax repayment orders. These figures are very small compared with the vast turnover of the department and reflect great credit on its staff.

Customs and Excise

Although receipts from customs and excise, at £1,630 million, were not far short of Inland Revenue receipts, the corresponding expenditure of the Customs and Excise department was very much less, being about two-fifths only of the Inland Revenue figure. Tobacco (with snuff) brought in the stupendous total of £604 million against only £303 million for the whole of the purchase tax, £249 million for beer, and £76 million for spirits.

Concessions and the Navy

Nearly £2½ million customs duty on certain light oils was remitted, the oils being a substitute for kerosene which is duty free. This concession has now been made statutory. Supplies of duty-free stores to the Navy cost over £6½ million in duty, of which £2¼ million is regarded as extra-statutory. This concession also has been regularized, with effect from June 1st, 1951, by Section 20 of the Finance Act, 1950, which permits the Commissioners of Customs and Excise to provide by regulation for the supply of duty-free goods to H.M. ships and naval establishments. Under regulations made on May 7th, 1951 (S.I. 807 of 1951), 1½ pounds of duty-free tobacco is supplied monthly on sea-going ships to every officer and man over 16 years of age who declares that he is in the habit of 'using' tobacco and undertakes to use the whole of it himself and not to sell or give any of it away. Smaller quantities are granted on other ships and in shore establishments.

The Post Office

Post Office expenses, including nearly £2 millio for rent, were over £187 million. Its total trans actions with the public exceeded £3,000 millio and its accounts present a bewildering array (figures from which it is possible to pick out onl a few. The Post Office dealt with 233 millio parcels and 118 million registered letters in tl year. There were over 88 million deposits ar withdrawals at the savings bank and their tot amount was over £751 million, which show what an important part this bank plays in th everyday financial transactions of the nation.

TABULAR ACCOUNTING

by ANGUS MACBEATH, C.A., A.C.W.A.

It is still usual to have the published accounts of companies prepared in the common two-sided form, but some companies have changed over to the vertical or tabular form, and the number of companies changing over appears to grow each year. In this article the differences between tabular accounts and two-sided accounts are considered, both in general terms and against the background of published accounts.

OUR system of accounting in its present-day form has been evolved from the method of book-keeping called double-entry which has as its basis that for every debit there is a corresponding credit, so that the system produces two-sided accounts which finish finally with the two-sided profit and loss account and the two-sided balance sheet. This is logical and simple and is the most common manner in which accounts are produced today.

When the stage was reached in our company law that directors were required to make a report to shareholders in sending to them the annual accounts of companies, it became the usual fashion to give in the report a short statement of the net profit; of some of the charges paid out of the profit; of the balance brought forward from the previous year; the total amount available; the dividends recommended for the year; and the balance to be carried forward. This statement was not given in two-sided form, but vertically. The natural development of this vertical method was in the profit and loss account itself where it was found that the details could usefully be set forth in tabular form commencing with the trading profit for the year and working through by additions and deductions to the balance carried to the balance sheet.

Having encroached on the published accounts it was only to be expected that the next step would be to produce the balance sheet in vertical form, but companies have been slower to change over the set-out of the balance sheet than they were with the profit and loss account, and the number of published balance sheets in vertical form is still relatively small.

Is the change from the two-sided account to the tabular account a good one?

Profit and Loss Account

A large number of companies now use the vertical form of profit and loss account and these companies include many which still use the two-sided form for the balance sheet.

The vertical form may seem the logical form for the profit and loss account as the stages in the utilization of the profit may be set forth step by step.

The logic is assisted by the eye since it is unnecessary to take the mind with the eye from side to side, as in the two-sided form, but merely to follow each step with the eye in a continuous progression.

We find, however, that while the two-sided form of account has attained to a reasonably static form which commences with trading profit on the credit side, shows any special income, and details on the debit side the various items of which the Companies Act requires disclosure, the vertical form is still shuffling about trying to reach a common form. Trading profit may be shown before adding and deducting certain items, and also after adding and deducting those items, and sometimes we find that the adding and deducting has transformed the trading profit into an operating profit, but for no apparent reason.

The vertical form does enable the hurdle of the treatment of income-tax to be overcome as it is possible to say 'Profit before taxation' and 'Profit after taxation' so that taxation is treated in proper sequence and the question of whether it is a charge (Companies Act, 1948, Eighth Schedule, Section 14 (3)), or an appropriation, as we have been wont to regard it, is left to the reader.

Amid all the examples available today the form which, in the opinion of the writer, is very suitable for general adoption is that used by the Imperial Chemical Industries Ltd where the opening figure is described as 'Manufacturing and trading profits less losses after charging the items inset below'. There then follows a note of the items of which the Companies Act requires disclosure in the profit and loss account; other items of income and expenditure are added or deducted and we are left with 'Consolidated income before taxation'.

We find, therefore, that from manufacturing and trading profits we move on to 'income', which appears to be a reasonable change after income from investments or from other sources has been brought in.

Summing up on the profit and loss account it seems reasonable to say that the vertical form has advantages which commend its adoption in place of the two-sided form, but that a more standardized layout is desirable if confusion to the shareholder is to be avoided.

Balance Sheet

As has been mentioned above, the number of companies which have adopted tabular accounting in preparing their published balance sheets is not large, but is increasing each year.

The two-sided balance sheet has today fallen into a regular groove which shows the book value of assets on one side, and the capital, reserves and liabilities on the other, the items on the two sides being usually set forth in the order of permanence, that is, first the fixed assets then the less permanent assets and finally, the current assets: first the capital and reserves, then the long-dated liabilities, and finally the current liabilities.

Though this is the usual form it is not universally adopted; for example, the General Electric Co Ltd reverses the order on each side, showing first the current assets on one side and the current liabilities on the other side.

Instead of showing assets on one side and liabilities on another side, the vertical form of balance sheet seeks, by addition and deduction, to establish a net book value for assets and to show how this value is composed in capital and reserves.

In examining the accounts of those companies which have published their balance sheet in vertical form it is difficult to find any two which are alike: each company has its own ideas of the object which it seeks to obtain, and of the method of obtaining that object.

We find for example that Courtaulds Ltd and Crittall Manufacturing Co Ltd start with the fixed assets: Triplex Safety Glass Co Ltd starts with current assets; while Lever Brothers Ltd and Shell Transport and Trading Co Ltd start with the capital.

In effect, the result of the transformation of the usual two-sided balance sheet into a vertical balance sheet is that the items in the two-sided balance sheet are rearranged to bring out a net figure for assets, after deducting the liabilities, which is equal to the total of the capital and reserves of the company, and is commonly known as the equity value.

Assistance to Shareholder

The vertical form would appear to be helpful to the shareholder who has little knowledge of accounting, because in place of a mass of figures neatly set out but conveying little informatio to him these same figures are set forth in a for which enables them to be more readily unde stood. This change is obtained by the inserti of descriptions of sub-totals; for exampl working capital, net tangible assets at boo value, capital employed.

In so far, therefore, as the vertical form used as a mere restatement of the items appear ing in the normal form of balance sheet it migh be considered that the shareholder was assiste by the change.

There is, however, a danger that the share holder may tend to be misled in a way which i avoided by the use of the double-sided form.

During the evolution of the balance sheet to it present-day form it was at one time usual to hea the two sides, the debit side being heade 'liabilities' and the credit side 'assets'; eventuall 'liabilities' gave way to 'capital and liabilities' but today most headings have gone. The deletio of the headings is probably due to the recognitio that they are very inaccurate descriptions of th items on each side; for example, the liabilitie included capital, reserves and provisions, whil the assets excluded amounts written off goodwill, patents and trade-marks – some balance sheets did not contain any value for those assets.

The practice today is to take the items on both sides of the balance sheet into a number of groups each of which is given a distinctive title. The totals of all these groups are given no descriptive titles – the debit total merely equals the credit total.

Tabular accounting, on the other hand, is not so vague – totals are generally given a descriptive title and here lies the danger. It is necessary to apply care to the descriptions given or they may prove misleading. Is it correct to say 'total net assets' when fixed assets are a book figure representing cost less depreciation; when loose tools may be entirely omitted together with such stocks as stationery and wrapping paper, and when large amounts may be written off the value of goodwill, patents, and trade-marks, at times during which the profits earned prove that the values of those assets are not merely being maintained but increased?

Standard Form

If tabular accounting is to become progressively more widely used, it seems desirable that a form should be adopted upon sufficiently standard lines to enable shareholders to understand and be able to compare each account without havin

to reconsider each one in light of differences in drafting between them. It is really necessary to have a form as stabilized as is the usual form of two-sided balance sheet today: stabilized in outline if not in detail.

A suitable type to use for an outline is that of Triplex Safety Glass Co Ltd, where first we have current assets from which are deducted current liabilities to leave the working capital; fixed assets are next added to give total net assets. This figure is then shown as being equal in amount to the capital and reserves of the business.

There are other types of tabular balance sheet which are little more than two-sided balance sheets set out on one side only – they often preserve all the non-committal aspects of the two-sided form.

A further development which may be expected from the wider adoption of tabular accounting is that either the description of totals will be so camouflaged as to be largely meaningless or else there will be an attempt to make the totals in the balance sheet show a true position by including all the assets owned, whether written off or not, and so to let the shareholder be advised of all those items, tangible and intangible, which he might otherwise omit to consider. If this development occurred it could not fail to be useful in the consideration of accounts.

Summing up on the balance sheet it may be said that the vertical form of presentation has some attractiveness in the manner in which the various assets and liabilities are grouped, so that the build-up is more clearly shown than in the two-sided form, but that care must be taken not to use any descriptions which might cause erroneous deductions to be made by the reader. The latter problem is one from which the present-day presentation of the two-sided balance sheet is free.

The tendency may become that in the effort to give full detail and yet preserve conciseness there may be a judicious blending of both two-sided and vertical accounting by giving the detail in two-sided form and by supplementing this with a summary of the balance sheet in vertical form.

Published Accounts

A random selection of published accounts, some features of which have already been considered above, brings out further points of difference which merit examination.

Nine sets of accounts are considered as follows:

Courtaulds Ltd.
Crittall Manufacturing Co Ltd.
Dunlop Rubber Co Ltd.
General Electric Co Ltd.
Imperial Chemical Industries Ltd.
Lever Brothers and Unilever Ltd.
London Brick Co Ltd.
Shell Trading and Transport Co Ltd.
Triplex Safety Glass Co Ltd.

All of these companies adopt the vertical form for the profit and loss account but both Dunlop and Imperial Chemicals adopt the two-sided form of balance sheet and London Brick really have the two-sided form set out in a different way.

Looking first at the profit and loss accounts we find the opening figure described as:

Manufacturing and trading profits less losses.
Balance from trading and investment income.
Trading profit.
Profit on trading.
Balances from trading accounts.
Gross profit on trading.
Net income from trading investments and miscellaneous revenue.

Presumably they are all descriptions of the same thing and could be quite adequately and uniformly described by the first one quoted which seems to be the best one.

After the opening figure, a list of the items charged in the trading account of which the law requires disclosure will usually be found. Some companies show the trading profit net after adjusting those items, others show a trading profit figure before the adjustment, and deduct the total of the items from this figure in the published account. The former method seems the better as a figure can hardly be described as trading profit before charging such items as depreciation, directors' remuneration, and auditors' remuneration.

Next in order are the non-trading items which are added or deducted to leave a figure for net income.

The amount of the estimated taxation on the profits of the year is now deducted. The practice of stating taxation as the amount expected to be paid on the profits of the year has become so universal as to be passed without further comment. Deduction of the total taxation leaves the 'net income after taxation'.

Next, the balance brought forward from the previous year and the adjustments relating to prior years are recorded to give the total amount of profit available for appropriation. The appropriations for reserves and dividends are deducted to leave, finally, the balance of profits carried forward to the next account.

All these steps are logical in sequence and, provided the descriptions applied to each total at each stage are accurate, the procedure appears to be an improvement upon the two-sided form of accounts.

The final figures brought out in the above published accounts for the results of the year's trading are variously described as:

Net income for the year.
Balance being profit for the year.
Net profit for the year.
Available net profit.
Net profit.

The first of those, used by Imperial Chemical Industries Ltd, is in the writer's view the best.

Vertical Balance Sheets

Turning to the balance sheets, let us look first at the vertical accounts.

The balance sheet of Courtaulds represents a terrific endeavour to concentrate as much information into as tiny a space as possible. The form of the balance sheet does not represent any new method of accounting. In effect, the liabilities and provisions are transferred to the assets side as deductions, and so much of the two sides as then remain are shown one underneath the other. The form used in setting out the items in the balance sheet does not differ from that usually adopted in the two-sided form.

In order to ascertain how the figures in the balance sheet are made up, reference has to be made to seven numbered schedules in which items are found which would normally be included in a two-sided balance sheet. So much detail is relegated to schedules that the statement could almost have been described as a 'Summary of the balance sheet' rather than as the balance sheet itself.

The space taken up by the schedules is so great that it appears to the writer that an equally good and perhaps more useful set-out could have been obtained by a complete balance sheet in the two-sided form accompanied by a summary in even shorter form than the published balance sheet – by giving a total only for the current assets.

A look at the Dunlop accounts will show that the two-sided form adopted gives the details clearly and sufficiently concisely, but that an understanding of the figures could probably be assisted by a summary grouping the totals to bring out the net asset position equivalent to the amount of the capital and reserves.

The Crittall accounts differ from the Courtaulds accounts in giving one page to the company accounts and one page to the consolidated accounts and also in not attempting a too gre concentration. Crittalls is, of course, a mu smaller company in figures. The method setting out the figures is exactly the same in th company as in Courtaulds but only two schedul are necessary and the figures in the balance she are neatly and clearly set out.

The Lever accounts are in a class by themselves. Each balance sheet and each profit an loss account is in vertical form on the left-han page and each one is followed on the right-han page by notes on the account.

The treatment is extremely neat and group the position of large figures in a manner whic would be most difficult if not impossible in th two-sided form. Detail is reduced to the min mum and yet sufficient is given to show th position to the shareholder.

In one way the normal procedure is reverse It is usual for the assets to be shown first and to be followed by the composition of the net asse figure in capital and reserves. Levers start of with the capital and reserves and show how the are made up in fixed and current assets.

The number of notes required to explain th accounts detract from their value in brevity bu the ramifications of this company make neces sary explanations not required by the smalle companies and, therefore, the form adopted while most suitable for Levers, could possibl be improved in smaller companies by a detaile two-sided balance sheet accompanied by summary in vertical form.

The London Brick balance sheet, while se out in an apparently tabular form, seems to be a two-sided account with the sides set underneath each other to give more available space.

In the setting out of the comparative figures the methods adopted by London Brick and by Courtaulds are different. London Brick show th figures for the current year for the group and th parent company on the right and the previou year's figures for both on the left. Courtaulds on the other hand, keep the current and previous year's figures for the group on the righ and for the parent company on the left, thu tending to make comparison easier.

Shell Transport have a very neat balance shee whose set-out is assisted by being confined to th one company – group figures appear in a separat statement. First are set out the capital and r serves, then the composition of these amounts fixed assets, and current assets less curre liabilities follows in vertical form. In a holdi company of this nature the set-out is as adequ

and succinct as could be desired and achieves a full economy in space compared to that which the two-sided form would require.

Triplex, like the London Brick Co., sets out the figures for the current and previous year in the left- and right-hand method which loses one of the advantages of the vertical form by requiring the reader to look from side to side to obtain the comparison.

This balance sheet also gives so much detail that it might possibly have been better to have set it out in the two-sided account form and accompanied it by a vertical summary in which the sub-totals only of the various items were given.

Conclusion

It will be appreciated from the foregoing comments on the published accounts that the degree of variance between the tabular accounts is great.

The form for the profit and loss account preserves the greater degree of similarity since it generally commences with the trading profit and works in sequence through to the balance carried to the balance sheet.

The probability is that the use of the vertical form of profit and loss account will continue to grow because it does enable the position to be set forth in logical sequence and also may enable a company to dispense with the restatement of a summary of the profit in the directors' report – reference can be made instead to the profit and loss account itself.

The vertical balance sheet seems unlikely to be so universally preferred. If considerable detail is to be given it will tend to be clumsy in comparison with the two-sided balance sheet. On the other hand the vertical form has the advantage that the reader unversed in accounting has the build-up to the capital and reserves made simple for him and does not have to figure the position out for himself. The very real danger of misleading sub-totals requires to be carefully watched.

It is possible that the future may see a compromise between the tabular and the two-sided form, perhaps along the lines of the Courtaulds accounts, by presenting a summary of the balance sheet made up of the group totals of assets and liabilities in vertical form followed by the detailed record of the items comprising the group totals, given in two-sided form.

DIRECTOR-CONTROLLED COMPANIES AND TAXATION

by WILLIAM WOLFF, A.C.A.

THE question whether a company is director-controlled for taxation purposes has been of continuous importance since the introduction of the national defence contribution in 1937. It acquired great importance during the excess profits tax period and, with the steady increase in the rate of profits tax, it is again a factor of major significance.

It is more than probable that the new excess profits tax, to be imposed as from January 1st, 1952, will again differentiate as between director-controlled and other companies. The difficulty of obtaining the approval of the Inland Revenue to pension schemes for directors, if it is once established that a company is director-controlled, is well known, and statutory reference to this was included in the Finance Act, 1947. The law on the subject of director-control has, moreover, been in a constant state of flux and it is probable that many companies which were, when the question as affecting them was first determined, quite correctly regarded as falling on one particular side of the line, should, in the light of subsequent case law, be regarded differently. From many points of view, therefore, the subject is of considerable significance.

Simple Test not Practicable

It would naturally have had the advantage of simplicity if the test of director-control had been merely to ascertain whether the directors had standing in their name more than half of the share capital of a company. But it is apparent that this would have led to various inequities and abuses, and the Inland Revenue have taken various steps, some of them statutory and some of them by test cases in the Courts, to establish a position something different from this. It is the purpose of this article to review these steps and then to consider the present position of the taxpayer in this regard.

The term 'director-controlled company' is a convenient abbreviation and is used throughout this article, but it should be remembered that the statutory phrasing is

> 'a company the directors whereof have a controlling interest therein'.

It should also be remembered that whilst with profits tax a company is generally interested (particularly because of questions of restriction of directors' remuneration in the case of director-controlled companies) to establish that it is *not* director-controlled, this position was sometimes reversed in the case of excess profits tax. This, of course, was mainly because, with excess profits tax, the rate allowed on increased capital was higher in the case of a director-controlled company.

Two Main Ambiguities

In establishing a fair test of whether a company is director-controlled, the Inland Revenue have mainly been concerned with two factors, viz.:

(1) The possible existence of individuals who in fact exercise the usual functions of a director, but who (either from motives of tax avoidance or for other reasons) are not formally appointed directors.

(2) The possible existence of shares, standing in the names of non-directors, the registered holders of which in fact vote as one or more of the directors may instruct them.

It was apparent that both of these factors held out possibilities of artificially removing a company from the category of a director-controlled company.

Extended Definition of 'Director'

The first factor was dealt with by including in the statutory definition of a director, for purposes of both excess profits tax and profits tax, the following:

(1) Any person who:
- (*a*) is a manager of the company or otherwise concerned in the management of the trade or business, and
- (*b*) is remunerated out of the funds of the trade or business, and
- (*c*) is the beneficial owner of not less than 20 per cent of the ordinary share capital.

(2) Any person in accordance with whose directions or instructions the directors of a company are accustomed to act.

One might have expected that the Inland Revenue would have followed this definition up by making more or less routine inquiries, in cases where a large shareholder was not a director, as to whether the individual in question exercised functions analogous to those of a director, but they do not appear to have done so and in practice this extended definition of a director has caused little difficulty. In any event, it is submitted that the Inland Revenue would be on delicate and difficult ground in suggesting that the directors were accustomed to act in accordance with the 'directions or instructions' of some particular person, for the directors clearly owe a duty to the shareholders as a whole and such a contention would come near to imputing to them a departure from their duty.

Body Corporate as Shareholder

The question of shares which stand in the name of a non-director but the voting on which is indirectly controlled by a director has proved a very troublesome one and various associated questions as to shares held in trust have further complicated the matter. An early difficulty was that of shares which stood in the name of a body corporate. This came before the Courts in the case of *British-American Tobacco Co Ltd* (21 A.T.C. 353) and although this case was not on a question of director-control, it was concerned with the definition of 'controlling interest'. Broadly speaking, the judgments in the case are an authority for saying that where a registered shareholder is a body corporate, the individuals who themselves control that body corporate should be substituted for the body corporate in determining with whom the control of that particular holding of shares lies.

Trustees and Nominees

The next important legal case was that of *J. Bibby & Sons Ltd* (24 A.T.C. 70) which established that shares standing in the name of a director as trustee must be regarded as controlled by that director for the purpose of determining whether the company is director-controlled. This case was of great interest, quite apart from the point that it specifically decided, for several of the judges made reference to the position that would have existed if the director-trustees had been 'bare' trustees, i.e. mere nominees, who were under an obligation to the real owner to vote and act in every way as he instructed them to do. This, of course, is a situation frequently met with in actual practice. The Court of Appeal were clearly of opinion that, in such a case, the control of the shares would be said to vest in the beneficial owner. The House of Lords refused to express an opinion on this point as it was not specifically before them, but it is difficult to read their judgments, and particularly that of Lord Simonds, without coming to the conclusion that they inclined to the view that even in the case of nominee holdings the control should be regarded as vested in the nominee as the registered holder of the shares.

Nominees again Considered

Encouraged, no doubt, by the expressed opinion of the Court of Appeal in the *Bibby* case, the Inland Revenue returned to the fight in the case of *Silverts Ltd* (30 A.T.C. 26). In this case certain shares in Silverts Ltd were registered in the name of a bank as custodian trustee, but two of the directors were managing trustees of the same trust and, as such, were entitled, except on certain very special matters, to instruct the custodian trustee as to how its votes should be exercised. The case therefore approximated more closely to that of the 'mere nominee' than did the *Bibby* case and the Inland Revenue contended that the control of the shares resided in the two directors who were managing trustees and who were able to instruct the registered holder on matters of voting. In due course, the case proceeded to the Court of Appeal, where the Inland Revenue's contention was rejected and it was decided that, as in the *Bibby* case, the control of the shares was with the registered holder, i.e. the custodian trustee. Once again, however, the Court of Appeal stated that if the registered holder had been a 'bare' trustee (i.e. a mere nominee) they would have felt 'strongly inclined' to hold that the control of the shares was with the beneficial owner.

The case of the 'mere nominee' has still not been brought before the Courts, but it is of interest to note that in defending Section 32 of the Finance Act, 1951 (which deals with avoidance of profits tax), the Attorney-General explained to the House of Commons that one of the objects of the section was to nullify the tax advantage gained by the transfer of shares effected by directors to members of their families in order to reduce the directors' personal holdings to below fifty per cent, so that the company would cease 'technically, to be director-controlled'.

Summary of Present Position

How, then, does the matter now stand? As has been mentioned, certain points are still undecided in a legal sense and it is therefore open to the taxpayer to urge that these points shall be construed in the manner most favourable to him. If, as is most probable at the present time, it is in the interests of the company to contend that it is *not* director-controlled, it is open to it to contend that shares which stand in the name of a director merely as a nominee shall be ignored in totalling the shares controlled by directors, and in support of his contention he can urge the recent comments of the Court of Appeal in the *Silverts* case. Moreover, if shares stand in joint names and one of the names is that of a director, it is generally permissible to regard such a holding as *not* under the control of a director unless the director's name appears first on the register. (See *John Shields & Co Ltd* (29 A.T.C. 267).)

It may be, however, that in other cases, either in connexion with old excess profits tax matters, or possibly in connexion with the new excess profits tax with which we are threatened, it will be advantageous to the taxpayer to claim that a company *is* director-controlled. In such a case, the very wide definition of a 'director' set out earlier in this article offers interesting possibilities. It may well be practicable, by availing oneself of the definition, quite properly to include as 'directors' individuals who are not directors in the generally accepted sense of the term and, by including their shareholdings, to demonstrate that control lies with the directors. Furthermore, if some of the shares in a company stand in the name of a body corporate, it may be very possible to demonstrate that the company is director-controlled by applying the *British-American Tobacco* decision and substituting for the body corporate the names of the persons who control that body.

WEEKLY NOTES

New Year Honours

It is with pleasure that we offer our congratulations to those members of the profession whose names appear in the New Year Honours List.

Mr Sydney Arthur White, A.C.A., M.V.O., becomes a Knight Commander of the Royal Victorian Order, and Mr Ira Wild, C.M.G., O.B.E., A.S.A.A., has been made a Companion of the Order of the Bath.

Four chartered accountants have been awarded the C.B.E. They are Mr Henry Arnold, M.A., A.C.A., Purchasing Controller, Pilkington Brothers Ltd, Liverpool, for services to the salvage drive; Mr George McDonald Bottome, B.A., F.C.A., a partner in the firm of Maxwell Hicks & Co, chartered accountants, London, for political services; Mr Arthur Eric Courtney Drake, M.A., A.C.A., lately General Manager in Persia, Anglo-Iranian Oil Co Ltd, and Mr Thomas Ridley Wood Burton Miller, A.C.A., Foreign Office.

The O.B.E. has been awarded to Mr Frank Heppenstall, A.C.A., Secretary, British Wool Federation, Bradford; Mr Thomas Holme Nicholson, F.C.A., F.S.A.A., a member of the Council of the Society of Incorporated Accountants and Auditors, and a partner in the firm of Saffery, Sons & Co, London; Mr Charles Francis Pagnamenta, A.C.A., lately Head

of the Prices Department, British Iron and Steel Federation; and Mr Hugh Robert Ralph, F.S.A.A., F.I.M.T.A., Treasurer, Harrow Urban District Council.

Three members of the profession receive the M.B.E.: Mr Clive Bindley Erlebach, A.C.A., Secretary, Trustee Savings Banks Inspection Committee; Mr Percival John Parratt, A.C.A., Accountant, Ministry of Fuel; and Mr James Renwick Riddell, F.C.A., Honorary Secretary of No. 1119 (Shrewsbury) Squadron Committee, A.T.C., and a partner in the firm of Asbury, Riddell & Co, Shrewsbury.

Excess Profits Tax

Trade and industry in this country are now in the curious position of knowing that their current profits are subject to an excess profits tax without knowing any of the terms of such tax. As announced by the Chancellor of the Exchequer on November 7th last, it is the Government's intention that the excess profits tax proposal which formed part of the Conservative Party election campaign, shall become effective on January 1st, 1952. However, judging by a written Parliamentary answer given by the Financial Secretary to the Treasury on November 15th last, the terms of this tax will not be announced until the Chancellor makes his next Budget statement.

Packet Foods Productivity Report

The team representing the British packet foods industry which toured the United States last year under the auspices of the Anglo-American Council on Productivity, states in its report, published on Monday,[1] that in the United States the close relation between accountancy, sales and production is universally recognized. Office equipment is provided without stint to enable cost and sales figures to be ascertained within a few days after the end of each month. The information thus provided is elaborate, but this form is preferred to less detailed statements which have to be supplemented by additional reports. As speed is essential (the industrial accountant regarding it as important for his department to produce the necessary figures when required as it is for the factory to make the goods to production requirements), a certain degree of approximation, provided that it does not mislead, is permitted.

Mr P. E. Green, A.C.A., chief accountant of H. J. Green & Co Ltd, Hove, Sussex, was a member of the team.

Nine Months' Revenue

The Budget is still three months away, but the first very tentative hints of how the fiscal year may turn out are available this week with the publication of the first nine months' revenue and expenditure figures. The outstanding feature of the public accounts so far is the buoyancy of the revenue.

Over the whole fiscal year, revenue was expected to increase by £258 million on 1950–51. In the three quarters just ended the rise was already £308 million. Most of the large tax sources have contributed to this result. Income-tax is up by £101 million, profits tax by £32 million, customs and excise by £121 million, and trading services by £32 million.

Expenditure, on the other hand, is £584 million higher than at this time last year. It is clear from the detailed figures that defence expenditure has made a large contribution to the increase.

There is, as at December 31st, a deficit of £226 million compared with a small surplus at the close of 1950. But it will be recalled that the Chancellor of the Exchequer, Mr Gaitskell, proposed almost to eliminate the substantial surplus for the year 1950–51, in estimating for 1951–52.

The latest estimate for the year's outcome is a surplus of about £138 million. Although much may happen, both on the revenue and expenditure side, before the end of March, the traditional heavy inflow of revenue to be expected in the fourth quarter may be sufficient to meet the target figures. The nine months' figures suggest that the broad fiscal picture delineated last April for 1951–52 is possible of achievement, although all the details cannot be expected to fit.

Year-end Pressure on Prices

Hardly had the public become acquainted with the increase in the cost of railway monthly return tickets, before it has had to take account of further price rises.

Two key materials have increased in price on the turn of the year. The price of coal has gone up by 5*s* a ton at the pithead. In addition there will be upward adjustments to coal prices because of higher freight charges. Recent miners' wage increases account for an increase of 3*s* 4*d* a ton. Higher timber and other materials costs account for a further 1*s* 10*d*. The odd 2*d* over the 5*s* is being absorbed by the National Coal Board at a cost of around £1·5 million to £2 million a year. How exactly the various users of coal are affected depends on the way in which the zoning scheme announced last June works out.

The other material to record a sharp price rise is aluminium. Virgin aluminium has gone up from £124 to £148 a ton as from January 1st. Three reasons are given for this increase. Higher prices from Canadian producers and the appreciation of the Canadian dollar are the main causes (it will be recalled that the aluminium fabricating industry in this country draws most of its ingot supplies from Canada). The third reason is higher transport charges. This is the first rise in aluminium prices since January 1951. Aluminium scrap is also raised in price from the same date.

Once again internal inflation and the weakness of this country's external trade position are sustaining a round of higher prices at different levels of the national economy. The miners are receiving an incentive payment which is temporarily, at least passed on to the coal user and the weakness of the £ raises the cost of imports.

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[1] The report can be obtained from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, price 4*s* 6*d* post free.

Building Society Interest Rates

When the Bank Rate was increased some weeks ago, the building societies made an announcement through their association that they did not recommend raising the rate on house mortgages in consequence of the higher price of money. Such counsels are of course always relative and can never be expected to do more than reassure interested parties that there will not be automatic changes nor panic adjustments. If the building societies were to announce that in the light of further experience with the change in interest rates in the markets, they had decided to make adjustments to their house contracts, no one would be greatly surprised.

The fact that one large society, and one only, has increased its mortgage rates since the association's announcement is rather more cause for comment. The Temperance Permanent Building Society (the eighth largest in the country) has decided to raise its rate from 4 to 4½ per cent on mortgages where holders opted to take advances at variable rates of interest. The change comes into effect as from April 1st. This society has been charging 4½ per cent on new borrowings since last July.

It will perhaps be found in the end that this 'rogue elephant' tactic by one of the larger societies is no more than the beginning of a gradual adjustment for the movement as a whole – an adjustment which may well be ragged if the movement's trade bodies are somewhat behind the gun in their appreciation of the effect of changing monetary policy on the building societies' fortunes, or where important trends develop in between formal association meetings.

Better Coal Outlook

Although coal production results for the last week of 1951 were not available as this issue went to press, it is now certain that the miners will slightly exceed the higher production target for the year. This was put at 210 million tons in the Economic Survey last March. Mild weather has meanwhile helped to keep open-cast output buoyant, and there is every likelihood that the total 'upper' target of 222 million tons will also be reached, the total being made up of deep-mined and open-cast output.

There has been a slight drain on coal stocks, but not sufficient to prevent stocks actually increasing over the first two months of the coal winter. At November 1st, when the coal winter officially began, stocks were 16·8 million tons. By December 15th, they were 16·9 million tons. This was 3 million tons better than the stock position at December 16th, 1950.

House-coal merchants' stocks are still uncomfortably low in many areas, but the reserve position for industry is generally much more satisfactory than a year ago, better, too, than anyone dared to hope at the end of October.

Record Rayon Production

Last year was an eventful one for the rayon industry. In the middle of the year it faced a materials crisis in the sulphur shortage. This problem was overcome, however, and in October a record level of production, 35·9 million pounds, was attained. In November the industry achieved 36 million pounds.

Next year may prove to be no less eventful. Raw material shortages could still interfere with production and there may be a challenge from the industry's markets, which are now absorbing something like three times as much rayon made in this country as at the end of the war. Japan has now emerged as a competitor, and the consumer resistance to purchasing – now prevalent in all classes of merchandise – may continue into the new year. The rayon industry is probably better equipped than most textile manufacturers to meet these challenges however, for it has learned over the years to adapt the techniques resulting from enterprise in chemical engineering to mass-production in the factory.

REVIEWS

Methods of Wage Payment in British Industry by Norman C. Hunt, B.Com., Ph.D.

(Sir Isaac Pitman & Sons Ltd, London. 18*s* net)

What makes people work? Mr Hunt begins with this question and, after considering briefly the various motives, comes to the conclusion that with all its limitations, the chief incentive is financial gain and that some form of payment by results is the greatest stimulus to increased productivity. The bulk of his book, thereafter, is devoted to a detailed account of the various rates and systems of payment in operation, with a summary of the merits and demerits of each. In reviewing the essentials of a good financial incentive plan, Mr Hunt emphasizes the following five points: (*a*) it must be fair to all concerned and must contribute to the benefit of both employer and employee; (*b*) there must be no arbitrary rate-cutting; (*c*) the scheme must be sufficiently simple for the wage-earner to understand; (*d*) if applying only to a section of workers in a factory, it should not upset the natural balance of wage rates within the factory as a whole; and (*e*) there should be adequate channels through which workers can make inquiries regarding their wages and, if necessary, lodge complaints or appeals.

Budgetary Control by H. P. Court, F.C.W.A.

(Sweet & Maxwell Ltd, London. 50*s*)

For some time past there has been need for a comprehensive British text-book on cost control, based on the use of flexible budgets and incorporating up-to-date developments in this technique. Practitioners and students will therefore find this book valuable, but unfortunately despite its size and its numerous

illustrations, it can hardly be said to fully meet the need; in certain parts, for example, there is a lack of precise expression which may be relatively unimportant to the accountant already familiar with the technique of cost control, but which is not altogether helpful to the student.

The reviewer feels that the real value of flexible budgets is not strongly brought out, while most of the examples contain comparisons which reflect variances both in cost and in output. In practice there would seem to be little to gain from incorporating both these variances in the results, since after all, in industry, 'budgetary control' means 'cost control' and therefore it is variations in cost that are significant.

This matter is also linked up with standard costs which really receive insufficient attention, since in their absence it is hardly possible to operate a system of budgetary control with complete analysis of variances.

Nevertheless, the whole field of budgeting, including cash and capital budgets, is covered in this book, which should be widely read.

Benjamin on the Law of Sale
(Eighth Edition)
by The Hon. Sir Donald Finneman, one of H.M. Judges, and Arthur E. James, Barrister-at-Law

(Sweet & Maxwell Ltd, London. £5 10s net)

The appearance of the eighth edition of this standard work is welcome to those concerned with the sale of goods because it is some twenty years since the previous edition was published. It may be helpful to those who are unfamiliar with the book to say that it is divided into several main sections, dealing respectively with the formation of contracts for the sale of goods, when such contracts are void or voidable, performance of a contract, its breach, and when the property in the goods passes. In an appendix is to be found the text of the 1893 Act and a few extracts from miscellaneous statutes.

The task of bringing the text up to date must have been a formidable one and many changes, together with a number of improvements in the form, have been made.

Rather fuller treatment of hire-purchase contracts, might have been looked for in a work of this size and authority; the 1938 Act does not appear to be mentioned. The legal position regarding returnable containers is also a matter of some practical importance on which the work gives but little assistance. A table of statutes and full references in the table of cases would have been valuable adjuncts to the text.

Nevertheless, the work is one which can be thoroughly recommended – indeed it is virtually indispensable to anyone requiring to ascertain the rights and liabilities which arise under a contract of sale. Accountants will find particularly valuable the passages dealing with the passing of the property in goods.

Trust Law and Accounts
(Fourth Edition)
by John B. Wardhaugh, C.A.

(W. Green & Son Ltd, Edinburgh. 27*s* 6*d* net)

Age cannot wither nor custom stale the infinite variety of a Scottish account charge and discharge. No two are alike and even the sums of the charge and of the discharge of the same account may show, in the hands of the inexpert, a wayward tendency to differ. This intractable individuality has in the past often been the despair of students – or almost so, for on such occasions one turned instinctively to a well-thumbed 'Wardhaugh' for guidance. Apart from the facts that the binding is grey instead of the familiar dark green and that it has been brought up to date in certain matters, notably in respect of case law, this new edition has the same authority and charm as its predecessors; authority, because Mr Wardhaugh is one of the finest exponents of the subject, and charm because the dates and narratives of the examples of the previous edition of 1928 have been retained. This gives the book the subsidiary distinction of being an interesting piece of social history without impairing its value as a definitive text-book.

Spicer and Pegler's Practical Auditing
(Tenth Edition)
by Walter W. Bigg, F.C.A., F.S.A.A.

(H.F.L. (Publishers) Ltd, London, and Sir Isaac Pitman & Sons Ltd, London. 27*s* 6*d* net)

This standard work was first published forty years ago and has been continually brought up to date with each new edition. The latest improvements include, in the appropriate sections, the recommendations made by the Council of The Institute of Chartered Accountants in England and Wales on matters connected with the Companies Act, 1948, and also a table of statutes referred to in the text. Not the least pleasing feature of the book which, although massive, is substantially bound and easy to keep open, is the large type and generous margin of space between the lines. This minimizes eyestrain and facilitates concentration on the text. It can be recommended equally as a manual for students and a work of reference for accountants in practice.

SHORTER NOTICE

FILING AND INDEXING, by O. W. Standingford. (Office Management Association Ltd, London, 5*s* net.) This slim volume of thirty-six pages, twenty of photographs, is based on a paper presented by Mr Standingford at a one-day conference of the Office Management Association. Though most office managers have their own firm opinions on filing and indexing, a study of this booklet should prove helpful, and many will find new ideas.

FINANCE AND COMMERCE

The new year in stock markets has begun quietly. The institutional 'window dressing' which characterized the gilt-edged market before December 31st is over, but so far the 'new year sales' have not begun. The general anticipation is, however, for a still lower level of gilt-edged values between now and the Budget. Credit restriction has yet to make itself fully felt in the market and further sales of Government stocks are expected.

Making History

Our first bouquet of this new year goes to Joshua Tetley & Son, the Leeds brewers, for their admirably produced report and accounts for the year ended September 30th, 1951. A reprint of the accounts in the present issue is precluded for reasons of space, but we hope very shortly to reproduce them in full.

These accounts, in their way, make history. How they do so has been summed-up by 'Lex' in the *Financial Times*. Pointing out that the Tetley accounts are practically an anglicized version of the accounts of The Caterpillar Tractor Company (reprinted in *The Accountant* on March 24th and 31st, 1951), 'Lex' says: 'The result is, in my opinion, highly successful, and materially in advance of the great body of reports published by United Kingdom companies. It provides a lead for the brewery industry and out-dates that "forward" experiment adopted by a few companies of providing the break-down of £1 of sales.

'Two figures alone from the company's "Year in Brief" puts Tetley's at the top of the class for informative reports; sales are given, £5·8 million for 1950–51, and net earnings (net profit after taxation) per £1 ordinary, 38·63*d*, compared with 50·68*d*. The stockholder can see the cover for his dividend by comparison with the next line in the table, which shows the net dividend in pence per share, 20·47*d*, as against 21·12*d*.

'In addition to the usual balance sheets and profit and loss accounts, there are three useful statements, giving a five-year rearward view of progress of the company. The Tetley board has done a good job, and one can only hope in the general investment interest that its example will be copied.'

Calor Royalties

Mr Barrington C. Gain, F.C.A., chairman of Calor Gas Holding Ltd, draws attention in his statement with the accounts, to what he regards as an anomaly in the 1948 Companies Act. The matter arises from the decision at last year's meeting, to approve agreements by which the royalties previously payable to the royalty owners were extinguished in consideration of the allotment to them of 105,000 of the company's 5*s* shares.

Mr Gain explains that owing to the requirements of the Act 'we are compelled in arriving at the cost of extinguishing these royalties to value these shares at their market value at the time of issue (namely £102,375) and to place the excess over their par value (namely £76,125) to share premium account and we are not permitted to use the share premium account for writing down the cost of extinguishing the royalties'.

It was thus decided to write off this cost of extinction by charging against it in each financial period the amount of royalties saved in that period. Certain of the royalties ceased to be payable as from September 30th, 1950, and certain from July 31st, 1951. In the balance sheet at that date, an amount of £7,262 which has been written off 'Cost of extinguishing royalties – Value of shares issued' represents the saving for the ten months to July 31st, 1951, of the royalties in the first category. Based on the figures for the year to July 31st, 1951, the saving in a full year will amount to £20,000.

Compact Statements

The accounts of Phillips Furnishing Stores Ltd, which we reprint in part this week, furnish an example of the compactness to which we referred a week ago. The part reprinted gives the consolidated financial position and the consolidated earnings statement provided by the board for the first time.

To have reproduced the whole of the company's accounts this week would have required three times the space now taken. There would have been a page of profit and loss account, two pages of consolidated balance sheet, and two pages of company balance sheet.

Without minimizing the importance of the detailed accounts, however, we feel that these summaries of the financial position, covering five years of balance sheet and four years of earnings are equally important. Sir Ronald W. Matthews, the chairman, introducing these two additional statements, explains that 1947 has been left out of the earnings statement because it did not fully represent the benefits accruing from the acquisition of two subsidiaries.

It is hoped 'that these two additional statements will assist stockholders to a clear understanding of the picture the accounts themselves present and it is the intention of the board to continue to furnish such information'.

Money Market

The money market weathered the difficult end-year period without having to resort to borrowing from the Bank. As a result the position is now easier. At the Treasury bill tender on December 28th applications totalled £188,290,000 for the £170 million of bills offered. Only £150 million was allotted and the market, bidding at £99 15*s* 2*d*, obtained 82 per cent of requirements with the average rate of 19*s* 4·06*d* per cent. This week's offer is £150 million and there is no Treasury deposit receipt call.

PHILLIPS FURNISHING STORES LTD

Consolidated Financial Position

As at August 19th	1947	1948	1949	1950	1951
	£	£	£	£	£
Current Assets					
Stocks and Work in Progress	346,670	254,735	285,034	296,649	880,820
Trade and Sundry Debtors	57,611	47,616	76,443	37,775	154,094
Amounts payable under Hire-purchase Agreements after Provision for Unearned Service Charges and Costs of Collection	294,986	489,646	819,320	927,212	1,225,495
Investment	4,000	4,000	4,000	4,000	4,000
Cash at Bank and in Hand	479	809	4,968	16,878	1,696
Inter-Company Balances	18,417	—	—	—	—
	722,163	796,806	1,189,765	1,282,514	2,266,105
Fixed Assets (*less* accumulated Depreciation and Amortisation)	134,833	142,599	185,723	211,869	see note A 601,343
Goodwill	58,883	65,248	65,248	65,248	1
Total Assets	915,879	1,004,653	1,440,736	1,559,631	2,867,449
Liabilities					
Bank Advances	325,378	178,156	234,534	230,978	351,953
Trade and Sundry Creditors, Bills Payable and Accrued Charges	217,764	210,720	446,207	483,113	1,184,674
Current Taxation	59,858	86,068	61,954	79,285	148,106
Future Taxation	14,810	34,387	46,253	66,864	90,858
Provision for Final Ordinary Dividend (net)	10,676	10,676	10,676	15,569	21,362
Total Liabilities	628,486	520,007	799,624	875,809	1,796,953
Net Assets	287,393	484,646	641,112	683,822	1,070,496
Ownership					
Preference Stocks	110,000	260,000	307,500	307,500	307,500
Ordinary Stocks	64,700	64,700	64,700	113,225	162,761
Reserves and Undistributed Profits	112,693	159,946	268,912	263,097	600,235
	287,393	484,646	641,112	683,822	1,070,496
Ordinary Stockholders' Total Investment (Ordinary Stocks plus Reserves and Undistributed Profits)	£177,393	£224,646	£333,612	£376,322	£762,996
Represented by number of 2*s* Ordinary and 'A' Ordinary units in issue	647,000	647,000	647,000	1,132,250 see note B	1,627,610 See note C
Ordinary Stockholders' Investment per 2*s* Ordinary and 'A' Ordinary unit	5/6	6/11	10/4	6/8	9/4

Notes: A. The total of £601,343 includes Freehold and Leasehold Properties valued as at August 19th, 1951, at £532,106.
B. In May 1950, 485,250 'A' Ordinary Units were issued as a Capital Bonus to Ordinary Stockholders in the proportion of 3 : 4.
C. In May 1951, 495,360 'A' Ordinary Units were issued as a Capital Bonus to Ordinary and 'A' Ordinary Stockholders in the proportion of 7 : 16.

Consolidated Earnings Statement

Year ended August 19th	1948	1949	1950	1951
	£ See note A	£	£	£
Trading Profits	179,045	227,115	235,233	432,436
Deduct:				
Transfer to Provision for Unearned Service Charges and Costs of Collection of Hire-purchase Balances	48,665	82,419	26,973	See note B 176,694
	130,380	144,696	208,260	255,742
Deduct:				
Depreciation and Amortisation	14,786	15,429	26,389	17,685
Audit Fees	1,025	1,250	1,375	1,575
Directors' Emoluments	10,591	14,050	16,499	11,690
	26,402	30,729	44,263	30,950
Profits before Taxation	103,978	113,967	163,997	224,792
Deduct:				
Income and Profits Tax	60,617	62,219	97,449	140,044
Net Profits after Taxation	43,361	51,748	66,548	84,748
Deduct:				
Capital Issue Expenses	8,093	1,187	711	—
Net Dividends on Preference Stocks	6,344	8,711	9,364	9,151
	14,437	9,898	10,075	9,151
Net Earnings on Ordinary and 'A' Ordinary Stocks	28,924	41,850	56,473	75,597
Deduct:				
Net Dividends on Ordinary Stocks	14,234	14,234	19,127	27,306
Earnings retained in the Company	14,690	27,616	37,346	48,291
Ordinary and 'A' Ordinary Stock Units of 2*s* each in issue	647,000	647,000	1,132,250	1,627,610
Net earnings per unit in issue in each year	10·73*d*	15·52*d*	11·97*d*	11·15*d*
Net earnings per unit of capital now issued	4·26*d*	6·17*d*	8·33*d*	11·15*d*
Net dividend per unit in issue in each year	5·28*d*	5·28*d*	4·05*d*	4·03*d*
Net dividend per unit of capital now issued	2·10*d*	2·10*d*	2·82*d*	4·03*d*
			See note C	See note D

Notes: A. The figures for 1948 include the accounts of one Subsidiary covering the period April 1st, 1947, to August 19th, 1948.
B. The provision for unearned service charges and costs of collection in 1951 includes an amount of £81,699, which is additional to the provision made on the basis adopted in preceding years.
C. In May 1950, 485,250 'A' Ordinary Units were issued as a Capital Bonus to Ordinary Stockholders in the proportion of 3 : 4.
D. In May 1951, 495,360 'A' Ordinary Units were issued as a Capital Bonus to Ordinary and 'A' Ordinary Stockholders in the proportion of 7 : 16.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Inspector of Taxes Interrogates

SIR, – I presume that a prudent Scot like Andrew MacVerycareful, referred to in Mr Wilfred Tullett's article in your issue of December 15th, will require his wife to continue working for a short period after marriage, at least until the first bairn arrives. May I therefore suggest to him that he delays his wedding from April 4th until the following October 5th. By doing this his wife will not only obtain, in the year of marriage, the personal allowance for a single young lady but also the wife's earned income allowance, in addition to reduced rate relief before and after the happy event. By choosing this date Andrew will ensure that the maximum amount of his wife's income falls in each period before and after marriage in order to take up all the available reliefs. There will then be refunds due to both Jean and Andrew which he should be able to use to pay for the wedding.

Strange as it may seem, I am not a Scot and unfortunately, having rushed into marriage before the Finance Act, 1948, I did not obtain the maximum benefits now available.

Yours faithfully,
ELBEE.

SIR, – I think that if Mr Tullett's Inspector of Taxes had been born and bred north of the Border he would have put the important question as to whether or not Miss McLookahead had any earnings which rendered her liable to income-tax.

If she is so liable then he will learn in due course from a very irate married couple what it is to waste the wife's earned income relief of a Scot.

Yours faithfully,
Wallington, Surrey. SYDNEY H. COOPER.

[Mr Wilfred Tullett, F.S.A.A., writes: If Miss McLookahead *had* been in employment, I am quite sure that the first argument which MacVerycareful would have put forward would have been this loss of income if the lady either gave up her job on getting married or even carried it on part-time. Also, if she was in employment, surely Miss McLookahead would have stressed the matter to further her case with her hesitating fiancé.

I think we can safely take it, therefore, that she was *not* in employment.

As to the suggestion that the marriage should be delayed until the following October 5th, *well*, the girl had already waited for five years, and I think that even her patience would have been exhausted!]

The Chartered Accountant Students' Society of London

SIR, – Owing to lack of experience in speaking into a microphone, I understand that there was some difficulty in hearing parts of my speech at the annual dinner of the London Chartered Accountant Students' Society, reported in your issue of December 22nd, 1951.

The result is that you appear to have quoted me incorrectly. You report me, *inter alia*, as having said that the students' society sets out to help the articled clerk to rest between examinations. My actual words were 'to help him raise his sights beyond examinations'.

I wish to make it clear that the London Students' Society does not provide feather beds for tired articled clerks between the Inter. and the Final!

Yours faithfully, B. D. BARTON.
Chairman of the Committee
THE CHARTERED ACCOUNTANT
London, N2. STUDENTS' SOCIETY OF LONDON.

Industrial Profits

SIR, – In the second part of his address on industrial profits, reproduced in your issue of December 15th, Mr H. P. Finn, A.C.A., suggests that industrial concerns who wish to do so might be permitted to write off, for tax purposes, all capital expenditure on assets liable for wear and tear as and when the expenditure is incurred, and he rightly stresses that the complications of detailed capital allowance computations would thereby be entirely avoided.

Mr Finn then remarks, however, that such a practice would not satisfy those who take the view that taxable profits should take proper account of changes in the value of money. On the contrary, I would suggest that any inadequacy in the present capital allowances arising from the fall in the value of money – due to the allowances being granted in pounds of a smaller purchasing power than when the asset was acquired – would be enormously reduced if the full cost of assets were allowed immediately. There would then be only a short time-lag between incurring the expenditure and the resultant tax allowance, instead of the allowances being spread over a lengthy period in which the pound might depreciate very considerably.

There may be other objections to allowing the full cost of assets immediately (e.g. the initial cost to the Revenue and the fact that the tax allowances would have to be spread forward in traders' accounts if serious distortions of profits are to be avoided), but consideration of the changing value of money, so far from being an impediment, is perhaps the strongest argument for doing so. At one stroke it would avoid:

(*a*) the need to calculate annual and balancing tax allowances; and

(*b*) argument as to whether, and how, annual allowances should be adjusted on account of changes in prices.

It would, in fact, avoid the problems of accounting for inflation as far as fixed assets are concerned.

Yours faithfully,
Purley, Surrey. M. G. SPRIGGS, M.A., A.C.A.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

Nash *v.* Tamplin & Sons Brewery Brighton Ltd
Davies *v.* Webbs (Aberbeeg) Ltd

In the House of Lords – October 25th, 1951

(Before Lord MORTON OF HENRYTON, Lord REID, Lord RADCLIFFE, Lord TUCKER and Lord ASQUITH OF BISHOPSTONE)

Income-tax – Trade – Deduction – Brewery business – Rents paid under long leases – Whether difference between rents paid by tied tenants and rent which would have been obtained from a free house deductible – Income Tax Act, 1842, *Schedule D, Cases I and II, Rule* 2 – *Income Tax Act,* 1918, *Schedule D, Cases I and II, Rules* 3 (*a*), (*m*), 5 – *Finance Act,* 1940, *Sections* 13, 17.

Each company carried on business as a brewer, and it was allowed, in pursuance of the decision in *Usher's Wiltshire Brewery Ltd v. Bruce* (6 T.C. 399), as a deduction in computing its profit, a sum representing the difference between the rents that it paid for the tied houses which it leased, and the rents received from the tied tenants. Subsequently, the Revenue took the view that, as the leases under which each company held the tied houses were long leases within Section 13 of the Finance Act, 1940, the rents payable under the leases had, under Section 17 of that Act, to be treated as patent royalties; and that the rents were, by Rule 3 (*m*) of Cases I and II of Schedule D, not deductible.

Each company claimed to be entitled to deduct a sum representing the difference between the total of the rents which it received from the tied houses and the total of the notional rents, which it would have obtained by letting the houses without the tie. The Revenue contended that the sum which the company could deduct was the actual rent paid by it for each tied house, less the rent received, that it was therefore claiming to deduct a part of a rent under a long lease, and that such a deduction was prohibited by Section 17 of the Finance Act, 1940.

Held (affirming the judgments of the Court of Appeal), that each company was entitled to deduct a sum representing the difference between the total of the annual values of the tied houses, less the rents received from the tied tenants, and that the deduction of that sum was not prohibited by Section 17 of the Finance Act, 1940.

In re Rose

In the High Court of Justice (Chancery Division) November 2nd, 1951

(Before Mr Justice ROXBURGH)

Estate duty – Transfer inter vivos – *Date of transfer – Transfer of shares in company before material date – Transfer not registered until afterwards – Customs and Inland Revenue Act,* 1881, *Section* 38 (2) (*a*) – *Customs and Inland Revenue Act,* 1889, *Section* 11 – *Finance Act,* 1894, *Section* 2 (1) (*c*) – *Finance Act,* 1946, *Section* 47.

On March 30th, 1943, the deceased executed two transfers of shares in a private company, and by a settlement of the same date he declared trusts of the second block of shares. The company's articles of association gave full power to the directors, without assigning any reason, to decline to register any transfer of shares in the company. The deceased was the governing director of the company, with virtually absolute powers over its administration. The transfers were held, from the date of their execution, by the secretary of the company, but they were not registered until June 30th, 1943.

The Crown contended that, as the registration of the transfers did not take place until after April 10th, 1943, there had not been a complete disposition of the shares before that date, and that, therefore, the period of time for rendering the dispositions immune from estate duty on the deceased's death had not elapsed.

Held, that the beneficial interests in the shares were transferred at the dates when the respective transfers were executed, and, accordingly, that the dispositions took place at a time which rendered them exempt from estate duty.

In re Beit

In the Court of Appeal – November 9th, 1951

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS and Lord Justice MORRIS)

Estate duty – Bequest of annuities – Estate insufficient to provide annuity fund – Purchase of annuities from testatrix's children – Agreement that purchased annuities be held as sole security for payment of will annuities – Death of annuitant – Whether cesser of interest and benefit accruing or arising – Whether disposal or determination of life interest – Finance Act, 1894, *Sections* 2 (1) (*b*), 7 (7) – *Finance Act,* 1940, *Section* 43.

The testatrix, who died in 1946, bequeathed a life annuity (and other such annuities) of such an annual amount as after deduction of income-tax would leave £52 12*s* 0*d*. The will directed the executors to appropriate an annuity fund sufficient by its income, and on the basis of the standard rate of income-tax then in force, to provide for the annuity and for the other life annuities bequeathed by the will. Subject to the payment of the annuities, the annuity fund was to be held on the same trusts as those concerning the balance of the estate.

The testatrix's estate was insufficient to constitute the annuity fund directed by the will, and the executors arranged to provide for the annuities by purchasing corresponding annuities from the testatrix's children, and by appropriating a purchased

annuity of the same amount to each annuitant as security. The annuitant (and all the other annuitants except two) wrote letters to the executors agreeing to this arrangement and agreeing 'that the executors shall hold the annuity purchased as sole security for the payment of my annuity, and distribute the remainder of the estate free from any claim by me'. Thereafter the executors paid the annuity (and all the other annuities) out of and by means of the corresponding annuity paid to them by the children under an agreement that was made between the executors and the children to that effect.

The annuitant in question died in November 1947, and the Inland Revenue claimed estate duty, under Section 2 (1) (*b*) of the Finance Act, 1894, on the footing that there had been a cesser of the annuity, and under Section 43 of the Finance Act, 1940, on the footing that there had been a disposition or determination of the life interest represented by the annuity.

Held (affirming the decision of Mr Justice Vaisey), (1) that there had not been such a cesser of interest, by the falling in of the annuity in question, as to give rise to a benefit of the kind contemplated by Section 2 (1) (*b*) of the Finance Act, 1894; (2) that there had been neither a disposition nor a determination of the will annuity; and that, therefore, Section 43 of the Finance Act, 1940, did not apply; (3) that the claim to estate duty failed.

Stainer's Executors (Gospel and Another) *v*. Purchase

In the House of Lords – November 29th, 1951

(Before The Lord Chancellor (Lord Simonds), Lord Normand, Lord Morton of Henryton, Lord Tucker, and Lord Asquith of Bishopstone)

Income-tax – Film producer – Assignment of story and shooting script – Service as producer – Right to proportion of receipts – Employment as co-director of film – Right to proportion of company's share of net profit – Employment as actor and producer-director – Right to lump sum within specified period and percentage of company's receipts – Death of employee – Variation agreement by executors – Large lump sum payable by instalments – Percentage of excess of receipts over lump sum – Whether the various sums taxable – Income Tax Act, 1918, *Schedule D, Charging Rules* 1 *(a) (ii); Case II; Case III, Rule* 1 *(a); Case VI; General Rule* 21*; Schedule E, Rule* 1.

The deceased, who was an actor and film producer, and whose professional name was Leslie Howard, owned the story and the shooting script of the film 'Mr Pimpernel Smith'. On October 31st, 1940, he contracted (Contract 'A') with a film company to assign the story and the shooting script to the company, to act as the producer of the film, and to direct the picture in association with another director. The picture and all rights in it were to be the sole property of the company. For his services the deceased was to receive £5,000 during production, and specified percentages of the gross receipts from two specified areas. One percentage was payable by monthly instalments. Mr Howard was killed by enemy action on June 1st, 1943, at which date some of the sums representing the percentage still remained to be paid. He had received the £5,000.

By Contract 'B', Mr Howard was employed by the company as an actor in the film '49th Parallel', and as co-director of the film. His remuneration was to be £2,000 plus a sum equal to fourteen forty-ninths of the company's share of the ultimate net profit from the distribution of the film. He received the £2,000, but a part of the fourteen forty-ninths was outstanding at the date of his death.

By Contract 'C', Mr Howard was employed as producer-director of the film 'First of the Few'. His remuneration was to be £5,000 by ten weekly instalments; and £10,000 was to be paid within two and a half years after the trade show, and he was to receive an amount equal to two-thirds of the actual sums received by the company from the exploitation of the film. The sums making up the two-thirds share were to be paid to him within a year after the receipt of the corresponding sums by the company. Mr Howard received the £5,000. By an agreement with his executors (Contract 'E') the company, instead of paying the £10,000, was to pay £11,000 by instalments over four years, and the two-thirds share was altered so as to be a share in the company's receipts in excess of £11,000.

Under Contract 'A', the executors received, during 1944–45, 1945–46 and 1946–47, sums on account of Mr Howard's specified percentages of the company's gross receipts. Under Contract 'B' the executors received, in 1944–45 and 1945–46, sums on account of the fourteen forty-ninths of the company's share of the ultimate net profit. Under Contract 'C' the executors received, in 1944–45 and 1945–46, sums payable by the company under that contract as varied by Contract 'E'. All these sums were paid without deduction of tax.

Assessments were made on the executors under Schedule D for 1944–45, 1945–46 and 1946–47. The assessments were under Case III or Case VI. The Crown did not seek to support any of the assessments under Case II because of Mr Howard's death. They did not contend that the sums received under Contract 'C', as varied by Contract 'E', were assessable under Case III, but maintained that these sums were assessable under Case VI.

The Special Commissioners decided that none of the sums received by the executors under Contracts 'A' and 'B' was assessable as annual payments under Case III; and that the sums received under Contract 'C' and Contract 'E' were not assessable under Case VI.

Held, (1) (affirming the decision of the Court of Appeal), that the instalments of the £11,000, and the sums equal to fourteen forty-ninths of the shares of profit under Contract 'B', were not assessable to tax; and (2) (reversing the decision of the Court of Appeal), that the other sums received by the executors were also not assessable.

THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952

A NOTABLE PROFESSIONAL OCCASION

As this will be the greatest occasion for the profession throughout the world in recent years - the previous international congress was held in Berlin in 1939 - we have pleasure in giving our readers advance information that was issued last Tuesday and in reproducing the substance of previous announcements.

President: Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A.
Vice-President: C. Percy Barrowcliff, F.S.A.A.
Chairman of the Council: H. Garton Ash, O.B.E., M.C., F.C.A.
Vice-Chairman: A. Stuart Allen, F.S.A.A.
Secretary: Alan S. MacIver, M.C.
Chief Executive Officer: Brigadier S. O. Jones, O.B.E., M.C.
Honorary Public Relations Officer: Derek du Pré.
Offices: 2 Salisbury House, London Wall, London, EC2. *Telegrams:* Unravel, Ave, London. Telephone: Monarch 6865.

Sponsoring Bodies

The Institute of Chartered Accountants of Scotland
The Institute of Chartered Accountants in England and Wales
The Society of Incorporated Accountants and Auditors
The Institute of Chartered Accountants in Ireland
The Association of Certified and Corporate Accountants
The Institute of Municipal Treasurers and Accountants
The Institute of Cost and Works Accountants

Arrangements well advanced

Arrangements for the Sixth International Congress on Accounting, to be held in London from June 16th to 20th next, are now well advanced; booklets outlining the provisional programme and giving much general advance information, for both delegates and visitors, have recently been sent to accountancy bodies in the United Kingdom and abroad.

Location of the Congress

The Royal Festival Hall, South Bank, London, which was specially built for the Festival of Britain, 1951, has been reserved for the occasion; all sessions will take place there, and not in the Royal Horticultural Halls, as previously announced.

Subjects to be Discussed

The following subjects have been selected for discussion:

Fluctuating price levels in relation to accounts.
Accounting requirements for issues of capital.
The accountant in industry.
The accountant in practice and in public service.
The incidence of taxation.

Presentation of Papers

Accountancy bodies in the countries named below have been invited to arrange for the presentation of papers:

Argentina, Australia, Belgium, Bolivia, Brazil, Canada, Denmark, Finland, France, Germany, Great Britain, India, Israel, Italy, Netherlands, New Zealand, Norway, Peru, Portugal, Rhodesia, South Africa, Spain, Sweden, Switzerland, United States of America.

Method of Discussion

The papers submitted by the countries named above will be printed and circulated towards the end of March 1952 to all attending the Congress. They will not be read during the sessions: instead they will be summarized by rapporteurs, and the remainder of each session will be devoted to discussion. It is hoped that the adoption of this procedure will give the maximum number of people an opportunity to express their views.

All contributions, oral and written, will be regarded as the authors' personal views.

Provisional Programme

The following programme is provisional and is for guidance only. It will be confirmed and amplified in March 1952, when the final programme, printed text of papers and tickets for the various functions, will be sent to all overseas delegates and visitors.

MONDAY, JUNE 16TH

10.30 a.m. Westminster Abbey
Special Congress Service
or
10.30 a.m. Westminster Cathedral
The Capitular Mass
2.30 p.m. Opening meeting.
9.0 p.m. Reception at Royal Festival Hall.
The Congress fee covers the reception: cost for ladies and guests of members £1 1s od each.

TUESDAY, JUNE 17TH

10.0 a.m. First session
Subject: 'Fluctuating price levels in relation to accounts'.
2.15 p.m. Second session
Subject: 'Accounting requirements for issues of capital'.
7.0 p.m. Theatre party.
Approximate cost per person £1.

WEDNESDAY, JUNE 18TH

10.0 a.m. Third session
Subject: 'The accountant in industry'.
2.15 p.m. Fourth session
Subject: 'The accountant in practice and in public service'.
7.0 p.m. Guildhall banquet for overseas delegates and for as many members of the sponsoring bodies as accommodation permits.
Approximate cost per member £3 3s od.

THURSDAY, JUNE 19TH

Visits to ONE of the following:	Approximate cost		
(*a*) Windsor Castle and Hampton Court	1	5	0
(*b*) Places of interest in London ..	1	5	0
(*c*) Oxford University	2	0	0
(*d*) Cambridge University	2	5	0
(*e*) Port of London by river steamer ..	1	5	0
or			
Golf competition	1	10	0

FRIDAY, JUNE 20TH

10.0 a.m. Fifth session
Subject: 'The incidence of taxation'.
2.15 p.m. Fifth session continued.
4.0 p.m. Closing address by the President.
6.0 p.m. Cocktail party at Grosvenor House, given by *The Accountant.*
10.0 p.m. Ball at Savoy Hotel.
Approximate cost per person £2 2s od.

Applications

To assist the Congress office in its distribution of literature, members of sponsoring bodies who wish to attend the Congress have been requested to complete an application form and to return it to The Secretary, Sixth International Congress on Accounting, 2 Salisbury House, London Wall, London, EC2, as soon as possible, and by February 15th, 1952, at latest.

Fees Payable

Members of the sponsoring bodies attending the Congress will be asked to pay a congress fee of £3 3*s od*, which will cover copies of all papers, admissions to all sessions of the Congress and to the reception on the opening night. This fee does not cover social functions other than the reception. Charges for these are shown in the provisional programme against each event.

Ladies and Guests

It is regretted that space will not permit ladies or guests of members being invited to the banquet at Guildhall on June 18th, but it is hoped to make other arrangements for their entertainment on that evening and also on other days during the hours whilst the Congress is in session.

Apart from Guildhall banquet, the sponsoring bodies will be pleased to see members' ladies at the opening meeting and closing address; in addition, if they so wish, they may sit in the balcony of the Royal Festival Hall during the sessions of the Congress. They will also be welcome at the social functions (other than Guildhall banquet) shown in the programme and at any other events which may subsequently be arranged for them. It will be necessary, however, to make charges as a contribution towards the cost. Charges for additional events cannot yet be determined, but those for the events already arranged are as shown in the provisional programme.

Members may also bring additional guests on payment of the above-mentioned charges.

Dress

Informal dress will be worn at all sessions of the Congress, including the address of welcome and the closing address.

Ladies' Committee

A ladies' committee has been formed to look after the requirements of ladies attending the Congress, especially during the business sessions and the banquet.

Articled Clerks and Students

Articled clerks and student members of the sponsoring bodies may attend the business sessions of the Congress on June 17th, 18th and 20th on payment of a total fee of £1 1*s od*, which will include copies of all papers.

Exhibitions of Accountancy Books and Records

Exhibitions of historical records on accountancy books will be arranged at the Public Records Office and at Guildhall from June 16th to 20th. Full particulars will be given later.

New Chief Executive Officer Appointed

Brigadier S. O. Jones, O.B.E., M.C., has been appointed Chief Executive Officer of the Congress in succession to the late Major-General E. C. Hayes, C.B., whose sudden death occurred last August.

Delegates and Visitors from Overseas

The main accountancy institutes and societies overseas have already been invited to attend the Congress. They have been asked to nominate official representatives as *delegates*: they have also been asked to give particulars of their members, other than their official representatives, who would like to attend as *visitors*.

All official delegates and, subject to considerations of space, as many visitors as possible, will be the guests of the sponsoring bodies at all sessions of the Congress, at the Congress reception, the theatre party, Guildhall banquet, certain visits and the ball.

Delegates and visitors are required to make their own arrangements as regards travel and accommodation.

Ladies of Delegates and Visitors from Overseas

The sponsoring bodies will be pleased to welcome the ladies of delegates and visitors at any or all of the social events which are being arranged in connexion with the Congress, except in cases where the accommodation is strictly limited.

They are particularly invited to the address of welcome and to the closing address. They may also attend the business sessions if they so desire. It has been decided, however, that delegates and visitors may each be accompanied by one lady only as a guest of the sponsoring bodies at any particular function. Should any delegate or visitor wish to bring additional ladies or any other members of his family to a social function, it will be necessary to make a charge as a contribution to the additional cost.

Visits to Scotland or Ireland for Overseas Delegates and Visitors

During the period Monday, June 23rd, to Wednesday, June 25th, overseas delegates and visitors and their ladies are invited to visit Scotland where they will be entertained by the Institute of Chartered Accountants

of Scotland and by the Scottish branches of the Society of Incorporated Accountants and Auditors, the Association of Certified and Corporate Accountants and the Institute of Cost and Works Accountants.

Alternatively, they may elect to visit Ireland where they will be entertained by the Institute of Chartered Accountants in Ireland, and by the Irish branches of the Society of Incorporated Accountants and Auditors, the Association of Certified and Corporate Accountants and the Institute of Cost and Works Accountants.

Delegates and visitors and their ladies wishing to avail themselves of this invitation are requested to make their own arrangements for travelling to Scotland or Ireland and for their hotel accommodation whilst there.

Official Language

English will be the official language of the Congress: all introductions and papers will be printed in English and the discussions will be conducted in that language.

NOTES AND NOTICES

Personal

MESSRS LAYTON-BENNETT, BILLINGHAM & CO, of 23 Blomfield Street, London, EC2, announce that Mr H. J. WATKINS, A.C.A., and Mr W. H. TARN, A.C.A., who have been members of their staff for some years, have been admitted as partners in the firm as from January 1st, 1952. The name of the firm will remain unchanged.

MR J. B. CRUSE, F.C.A., practising as J. B. CRUSE, Chartered Accountant, at Queen Anne Chambers, The Strand, Barnstaple, announces that as from January 1st, 1952, he is taking into partnership Mr R. B. BLATCHFORD, A.C.A. The practice will be carried on in the name of CRUSE & BLATCHFORD, Chartered Accountants.

MESSRS W. VINCENT VALE & CO, Incorporated Accountants, of 16 Waterloo Road, Wolverhampton, announce that, as from January 1st, 1952, Mr S. J. RICHARDS, A.S.A.A., Mr D. H. LEWIS, A.S.A.A., and Mr J. A. B. STALLARD, A.S.A.A., have been taken into partnership. All the new partners have been associated with the firm for a considerable number of years. The name of the firm remains unchanged.

MESSRS GILLESPIE BROTHERS & CO, Chartered Accountants, of Newcastle upon Tyne and London, announce that as from January 1st, 1952, they have admitted into partnership Mr C. C. K. GROOM, A.C.A., and Mr R. E. APPLEBY, A.C.A., both of whom have been with the firm for some years.

MESSRS DERBYSHIRE & CO, Chartered Accountants, of Bentinck Buildings, Wheeler Gate, Nottingham, and of London, announce that on January 1st, 1952, three new partners have been admitted to the firm, viz. Mr GEORGE LINNEY ECCLESHALL, M.A., A.C.A., Mr RICHARD FOSBROOKE HOLLOWAY, A.C.A., Mr JOHN FRANCIS PARROTT, A.C.A. All are sons of partners and were articled and trained in the offices of different well-known firms of chartered accountants. Each held a commission in H.M. Forces and on his return passed his Final examination and joined the staff of the firm, the name of which remains unaltered.

MESSRS W. H. BARNES & CO, Chartered Accountants, of 10 Coleman Street, London, EC2, announce that on January 1st, 1952, they admitted to partnership, Mr STANLEY NORTON ELGAR, A.C.A., who served his articles and has since been continuously associated with the firm. The title of the firm will remain unchanged.

MESSRS BLEASE & SONS, Chartered Accountants, of 223 India Buildings, Water Street, Liverpool, 2, and at Cliffords Inn, London, EC4, announce that, owing to indifferent health, Mr ROBERT REGINALD STEWART, F.C.A., retired from the partnership on December 31st, 1951; he will, however, continue to be available for consultation by appointment. They also announce that on January 1st, 1952, they admitted to the partnership Mr HARVEY GRAHAM MACK, A.C.A., son of the senior partner. Mr GRAHAM MACK served his articles with the firm and has since been engaged as one of their managing clerks.

MESSRS DEARDEN, GILLIAT & CO, Chartered Accountants, announce that they have now changed their address to Croxley House, 14 Lloyd Street, Albert Square, Manchester, 2, and their telephone number is Blackfriars 7185 (4 lines).

MESSRS RICKARD & CO, of 224A Shaftesbury Avenue, London, WC2, and 143 High Street, Southend-on-Sea, announce that Mr L. H. BRAZIER, A.S.A.A., who has been associated with the firm for a number of years, has been admitted into partnership as from January 1st, 1952.

MESSRS RICKARD, CHAMBERS & CO, of 1 Colonnade House, High Street, Worthing, announce that Mr L. H. BRAZIER, A.S.A.A., has been admitted into partnership as from January 1st, 1952.

MESSRS FUTCHER, HEAD, SMITH & CO, Chartered Accountants, announce that, after fifty years in the firm, Mr T. HOWARD HEAD, F.C.A., has decided to retire as from December 31st, 1951, owing to ill health and advancing years. As from January 1st, 1952, Mr ERIC HOWARD HEAD, A.C.A., Mr PATRICK HEMSLEY SMITH, A.C.A., and Mr JOHN REES MORGAN, A.C.A., have been admitted as partners.

MR HENRY OSBORNE, of Carlton House, Easingwold, announces that as from November 12th, 1951, he has entered into partnership with Mr RALPH APPLEYARD, of 17 Spurriergate, York, and of Leeds, and the practice will be carried on under the title of OSBORNE & APPLEYARD, Accountants and Auditors. Mr RALPH APPLEYARD will continue his own practice at York and Leeds under his own name.

MESSRS WADE, HARRISON & CO, Chartered Accountants, of 53 New Broad Street, London, EC2, announce that they have taken into partnership as from January 1st, 1952, Mr L. E. SWALLOW, A.C.A., A.S.A.A. The name of the firm remains unchanged.

MESSRS FRANKLIN, WILD & CO, of Orient House, 42–45 New Broad Street, London, EC2, announce with regret the death on December 23rd, 1951, of their senior partner Mr NORMAN WARD WILD, F.C.A. The practice will be continued by the remaining partners.

Professional Notes

Francis Morton & Co Ltd, of Garston, Liverpool, announce that Mr J. A. Johnston, A.C.A., secretary of that company, has been appointed a special director.

The British Tabulating Machine Co Ltd announces that Mr William E. Ogden, F.C.A., partner in the firm of Messrs Ogden, Hibberd Bull & Langton, Chartered Accountants, has been elected a director of the company as from January 1st, 1952.

Mr S. Harold Gillett, M.C., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, has been appointed a director of Cable and Wireless (Holding) Ltd as from January 1st, 1952.

Obituary

NORMAN WARD WILD, F.C.A.

It is with regret that we record the death on December 23rd, 1951, at the age of 67, of Mr Norman Ward Wild, F.C.A., senior partner in the firm of Franklin, Wild & Co, Chartered Accountants, of Orient House, 42–45 New Broad Street, London, EC2.

Mr Wild, who was articled to the late Sir George Franklin, was admitted an Associate of the Institute in 1907 and elected a Fellow in 1913. In 1908 he became a partner in the firm of Franklin, Wild & Co, and in 1927, on the death of his father, the late Mr Thomas Frederick Wild, he became the senior partner.

The funeral service, held at St Marylebone Parish Church, London, on Thursday, December 27th, 1951, was attended by a large number of friends and members of the firm's staff.

Census of Production for 1952 to be Simplified

The Board of Trade has stated that the census of production to be taken in 1953 in respect of the year 1952 is to be simplified. Forms will contain fewer questions than in any previous census and 'sampling' will be introduced for the first time.

These changes which have been made after consultation with the Census of Production Advisory Committee will reduce the burden on industry very substantially and permit the greatest possible economy in the Census of Production Office at the Board of Trade.

The census will cover all producing industries as before and returns will be required from all firms over a certain size in each trade. A 'sample' will be taken of smaller firms, however, which means that the majority will not be required to make a return.

The statutory form of return will include questions on (1) working proprietors; (2) average employment during the year; (3) wages and salaries; (4) plant, machinery and vehicles; (5) new building work; (6) total materials and fuel purchased; (7) work given out; (8) stocks at the beginning and end of the year; (9) total output; (10) transport payments.

Following are the principal simplifications compared with previous censuses: *Output and materials purchased:* Totals only; no detailed analysis required. *Employment:* No detailed analysis: average number of operatives and of administrative, technical and clerical employees. *Wages and salaries:* No details of payments to outworkers or national insurance payments.

Further details of the statutory census form will be sent to trade associations very shortly. Any firm in the field of production requiring further particulars about the census for 1952 should write to the Census of Production Office, Neville House, Page Street, London, SW1.

Job Evaluation

A technique of industrial management which is receiving attention at present is job evaluation. An objective assessment of the relative worth of different jobs is clearly necessary for satisfactory industrial relations and it is such an assessment that job evaluation provides. While personal effort and merit must always be recognized, this is better done by means of adjustments to basic rates which are themselves completely objective.

The British Institute of Management has recently issued a booklet[1] *Job Evaluation: A Practical Guide,* embodying the results of the work of a panel set up to investigate the subject and to promote knowledge of its possibilities. If this method of establishing a systematic wages scale can bring about a higher degree of co-operation in industry, it obviously deserves serious study. The booklet now published forms a brief but authoritative introduction to a technique which, although not in general use, is nevertheless practised by a number of British organizations (of which thirty-four, including some of the larger, were investigated). Naturally it has been applied mostly to manufacturing processes, but there is also a wide field for its application to clerical work.

[1] *Job Evaluation: A Practical Guide.* The British Institute of Management, Management House, 8 Hill Street, London, W1. 7*s* 6*d* net.

London and District Society of Chartered Accountants

An address entitled 'Training for management' will be given next Tuesday, January 8th, by Mr Noel Hall, M.A., Principal of the Administrative Staff College. The meeting will commence at 6 p.m. in the Hall of the Chartered Insurance Institute, Aldermanbury, EC2.

Mr J. N. Derbyshire, F.C.A.

In an obituary notice about the late Mr H. F. Holloway, F.C.A., in our issue of December 22nd last, reference was incorrectly made to the *late* Mr J. N. Derbyshire. We are advised that Mr Derbyshire, at 85 years of age, is still extremely active as the senior partner in the firm of Messrs Derbyshire & Co, Chartered Accountants, of Nottingham and London.

London Association for Hospital Services

The Council of Management of the London Association for Hospital Services has announced improvements in its benefit schemes, as follows:

Hospital Service Plan. – The benefits to be paid to members of the standard, augmented and maximum schemes will be increased by 25 per cent for a claim made by a contributor to whom no benefit has been paid for treatment received in the contribution year in which the patient is admitted to hospital and in the two preceding contribution years.

This will apply to those admitted to hospital after December 31st, 1951.

Extended Benefit Scheme. – Benefit will now be paid for diagnostic investigation, e.g. X-ray and/or pathological test, ordered by a *general medical practitioner*, and not only, as hitherto, when ordered by a specialist.

The Association is a voluntary contributory body which provides financial facilities, supplementing the National Health Service, to residents of Great Britain and Northern Ireland under 60 years of age, who desire treatment in hospital private wards or home nursing attendance.

Particulars may be obtained from the Secretary of the Association at Tavistock House (South), Tavistock Square, London, WC1.

Recent Publications

TAXATION AND THE INDIVIDUAL, by S. P. Chambers, C.B., C.I.E. 19 pp. $8\frac{1}{2} \times 5\frac{1}{2}$. 1*s* 6*d* net. The Institute of Bankers, London, EC3.

GARSIA'S LAW RELATING TO BANKRUPTCY IN A NUTSHELL. Fourth Edition, by Immanuel Goldsmith, LL.B., Barrister-at-Law. v+87 pp. $7\frac{1}{2} \times 4\frac{1}{2}$. 6*s* 6*d* net. Sweet & Maxwell Ltd, London.

Overseas Economic Surveys

ECONOMIC AND COMMERCIAL CONDITIONS IN VENEZUELA AND CANADA

Surveys of economic and commercial conditions in Venezuela and Canada have now been published by H.M. Stationery Office, price 7*s* 0*d* and 6*s* 6*d* net, respectively. They are the latest volumes in the series of overseas economic surveys issued by the Commercial Relations and Exports Department of the Board of Trade.

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF JANUARY 6TH, 1877

Excerpt from a paragraph of an article entitled

A New View of Bankruptcy

Despite the purchase of the telegraph service, and the much talked about purchase of the railways by the State, it does not require much political insight to discern a strong, and, we believe, permanent tide towards decentralization. Many people are inclined to think that the two departments of enterprise we have mentioned are more beneficial to the public good than they are ever likely to be to their proprietors, whether the latter be the Government or individuals. If this be admitted, the propriety of their management by the State is almost beyond question. But it is an altogether different matter when we come to the causes, progress, and effects of private enterprise and industry, which have for their primary object the welfare of the individual. The State never coerces, or in any special way interferes with the action of individuals, except when such action is clearly proved to be detrimental to the public good. Laws are made to secure the well-being of the nation as a whole; the good they yield to units being, as it were, merely incidental, or contained in the greater good.

The Accountant

ESTABLISHED 1874

JANUARY 12TH, 1952 VOL. CXXVI NO. 4021

CONTENTS

AMERICAN COMPANY REPORTS

THE obligation of company managements to let shareholders know exactly what is happening to the money they have invested is nowhere more scrupulously observed than in America. Much of the credit is due to the American Institute of Accountants, who, after the Wall Street crash of 1929, persuaded the New York Stock Exchange to insist that companies listed on the exchange should disclose sufficient material fact and information to ensure that the results shown by their published accounts were not misleading. Later, the Institute devised, with the newly-formed Securities and Exchange Commission, the current rules and regulations governing both the required prospectus information for new companies and the annual statistics which companies whose stocks are quoted on any national securities exchange have to file with the Commission. Coming as they did after a long period in which the practice was to tell the shareholders as little as possible, these reforms at first caused some concern among traditionally conservative managements because it was feared that the disclosures required by the new regulations would have harmful effects on the fortunes of individual companies. When these fears did not materialize, directors and managements quickly developed a new-found sense of responsibility to stockholders and also to employees and to the public at large. Not only were the new requirements loyally complied with, but a wealth of gratuitous supplementary information relative to the activities of the various companies was also forthcoming. The publicity value inherent in healthy facts and figures was soon realized and legitimately exploited.

With a view to analysing the continuous developments in the presentation of company accounts, the Council of the American Institute of Accountants initiated in 1946 a series of surveys to be carried out by its research department on the annual reports of the leading American commercial and industrial companies. The fifth of these studies – based on a survey of the annual statements of 525 companies for their financial years which ended between May 1st, 1950, and April 30th, 1951, and supplemented, wherever appropriate, by references to the reports of approximately 600 other companies which were informally reviewed – has just been published.[1]

The survey is divided into five sections. The first is a general review of the customary certified statements presented to stockholders and of the form and terminology of these documents. It

[1] 'Accounting Trends and Techniques in Published Corporate Annual Reports. Fifth Annual Cumulative Survey.' American Institute of Accountants, New York. $10.

shows that of the 525 reports considered, 332 (as against 354 last year) consisted of a balance sheet, an income statement, a retained earnings statement and, in certain cases, a statement of capital surplus. A growing tendency in recent years has been to combine the income and retained earnings statements, and 167 companies (as compared with 149 last year) now use this modified form. The only other considerable variation was the presentation of a balance sheet and income statement only – used by twenty-one companies. It is somewhat surprising to learn that although the trend towards their use is on the increase, only 320 companies, representing 61 per cent of the total in the survey, gave the comparative figures for the preceding year in one or more of the financial statements presented.

The second section deals in detail with the various items in the balance sheet. It is noteworthy that, of the 677 bases of pricing inventories disclosed, 419, or 62 per cent, were 'the lower of cost or market', and 140, or 21 per cent, 'cost'. The remaining 118, representing 17 per cent, included, among other bases, 'market', 'less than market', and 'contract or sales price'. Only sixteen companies did not disclose the bases on which their inventories were priced. Of the methods used in the determination of inventory cost, that of 'last-in, first-out' was, for the first time since the surveys began, more popular than any other, being employed in 136 instances out of 421 mentioned. The two other principal methods were 'average cost', used in 119 cases, and 'first-in, first-out', used in 105 cases.

In the third section which covers the income statement, the opening table shows that 521 out of the 525 companies under review submitted income statements. Of these, 482 disclosed the totals of their sales or revenues, 351 describing them as 'net', 28 as 'gross', and 14 as a combination of 'gross' and 'net'. In 89 instances, no indication as to how the figures were compiled was given. Among other interesting items considered in detail in this section are depreciation (only 23 companies disclosed the methods used by them in computing this charge), accelerated depreciation and plant replacement charges, employment costs including pension plans, excess profits tax and minority interests.

The fourth section examines the various debits and credits to the retained earnings account. Only 129 companies showed charges against the account, the principal items being 87 in respect of capital stock transactions, 24 transfers to reserves, 22 adjustments for prior years, and 12 entries writing off intangible assets. Transfers from reserves accounted for 70 of the 156 recorded credits. Another 44 represented adjustments for prior years, and 15 denoted capital stock transactions. As in previous years, the great majority of companies charged cash dividends declared to the retained earnings account or its equivalent. Only 22 of the 525 concerns gave no indication of dividend declarations.

The fifth and last section of the survey, and perhaps the most interesting to the profession, deals with the accountant's report. Although American companies are not compelled by law to have their books and accounts audited, most of them employ professional accountants because, as MR GEORGE COCHRANE, F.C.A., C.P.A., pointed out in an address at the 1950 summer course of The Institute of Chartered Accountants in England and Wales:

> 'The concept of the auditor's independence, from which arises the respect for the objectivity of his opinion, has become an integral part of American business philosophy.'[1]

The extent of this respect may be gauged by the fact that of the 525 companies included in the survey, only one did not produce an accountant's report. No fewer than 452 accounts carried the revised short-form report recommended in 1948 by the Committee on Auditing Procedure of the American Institute of Accountants.[2]

In another sixty-one cases, a modified form which states the opinion in the opening sentence of a single paragraph was used. Many interesting excerpts from reports explaining why certain audit procedures had been followed or (in some instances) omitted and giving examples of qualifications are quoted.

The pleasure and profit which may be derived from studying this encyclopaedic work are apparently inexhaustible and the Council of the American Institute of Accountants is to be warmly congratulated. The survey is a major contribution to the accountant's ideal – the production of a definititive financial statement expressed in language which the layman without specialized knowledge of accounts can understand.

[1] *The Accountant*, November 4th, 1950, page 448.
[2] *The Accountant*, November 4th, 1950, page 456.

SECURITY OF TENURE FOR BUSINESS TENANTS

by H. N. BEETLESTONE, LL.B., Barrister-at-Law

ALTHOUGH the responsibility for advising a client on legal questions connected with the tenancy of his shop or business premises is that of the client's solicitor, it is conceived that an accountant might be interested in an outline of some of the problems involved. If his client should then raise the matter he will at least be in a position to give some indication of the difficult and complex questions involved. Further, an introduction to the subject will, it is hoped, serve to demonstrate to the accountant the need to persuade his client to take legal advice at the outset.

Tenancy About to End

The object of this article is to set out briefly, and in a fairly simple form, the position under some statutes that exist for the benefit of the business man or shopkeeper whose tenancy is about to come to an end, either because his lease has run out or because his landlord has given him notice to quit. The article is not intended to be an exhaustive statement of the law, but rather an indication of the alternatives that may be open to the tenant. If the client should be the landlord the problems may arise just the same; and it is always of assistance to appreciate the lines of approach open to the other side.

There are three main statutory provisions to be considered:

1. The Rent Restriction Acts, 1920–1949.
2. The Landlord and Tenant Act, 1927.
3. The Leasehold Property (Temporary Provisions) Act, 1951.

As some or all may apply to any individual case it is advisable for the accountant to consider the position under each of the above headings. It is useful to have more than one line of argument open: election as to the line ultimately to be relied upon can be taken later, on legal advice.

The Rent Restriction Acts, 1920–1949

These Acts apply to all dwelling-houses of a rateable value not exceeding £100 per annum in the Metropolitan Police District and the City of London, and £75 per annum elsewhere in England and Wales.

The important point so far as the business man is concerned is that, although they apply primarily to dwelling-houses, the application of the Acts is not to be excluded solely on the ground that part of the premises is used as a shop, or office, or for business, trade, or professional purposes. Basically the question is, 'for what purpose were the premises let?' If they were let as a dwelling-house they will be protected, although the greater area or part may be used for shop or business purposes. The Acts do not impose any requirement that a substantial part of the premises is to be used as a dwelling-house, or any similar qualification.

When Lease has Terminated

Once the lease has terminated, if a tenant thinks he is entitled to the protection of the Acts there is no legal need for him to take any positive action, as will be seen to be necessary under the other two Acts to be considered later. He will remain in possession as a statutory tenant and if his landlord wants to get him out it is up to the landlord to apply to the County Court for an order for possession.

There is, however, a danger from the point of view of the tenant who wishes to hold over as a statutory tenant. One of the grounds upon which the Court can make an order for possession is that the Court considers the making of such an order to be reasonable, and that suitable alternative accommodation is available. The primary object of the Acts is to protect the tenant in the occupation of his dwelling-house. It has in fact been held that the part of the property actually occupied as a dwelling-house can, in suitable circumstances, properly be regarded as alternative accommodation. Thus, providing it is reasonable (and what constitutes reasonableness is essentially a question to be decided in all the particular circumstances of an individual case), the tenant may find himself compelled to give up possession of his shop or business premises while retaining possession of the living accommodation previously let therewith.

The Landlord and Tenant Act, 1927

It will have been noticed that the protection of the Rent Restriction Acts may apply irrespective of whether the premises are used for trade, business, or professional purposes. The sections of the

Landlord and Tenant Act, 1927, now to be considered only apply where the premises are let for trade or business purposes. They do not apply where the premises are let for professional purposes or where let for business purposes and the business consists of subletting residential flats.

The tenant has two rights under the present Act:

(a) A claim for compensation for loss of goodwill under Section 4

A claim for compensation for loss of goodwill may arise under Section 4 in the case of any tenant who has occupied business premises, either himself or through his predecessor in title, for five years or more, and is compelled to leave either because his lease has expired, or because he has been given notice to quit.

The goodwill referred to is not goodwill as understood in the ordinary commercial sense. No definition is given in the Act, but without attempting a precise definition it means the capital value of the additional rental the premises may command because of the efforts of the tenant in carrying on his particular business thereat.

The slender nature of the tenant's right under present-day conditions can best be illustrated from the fact that, to defeat a claim, a landlord has only to produce some prospective tenant carrying on some trade or business different from that of the tenant in possession, the prospective tenant being willing to pay a higher rent for a lease than the present tenant. This is not a very difficult task in these days of scarcity of accommodation and inflated rents. If such a prospective tenant can be produced, then there is no loss of goodwill and the outgoing tenant has no rights under Sections 4 and 5 of the Act.

(b) A claim for a new lease under Section 5

In order to bring himself under Section 5 a tenant has to prove himself eligible for compensation under Section 4 and, in addition, to allege that although he would be entitled to such compensation, the sum which could be awarded to him will not compensate him for the loss of goodwill he will suffer if he removes to, and carries on his trade or business at, some other premises. The tenant must also show he is a suitable tenant.

The landlord may resist the claim for a new lease on several grounds. Examples are: that the premises are required for his own occupation; or that it would not be consistent with good estate management to grant a new lease. In these circumstances the tenant may be granted compensation for loss of goodwill.

The maximum length of a new lease that can be granted is fourteen years.

A tenant wishing to exercise his rights under the Act has to serve certain notices on his landlord within the time limits, which are strictly enforced.

Two final points. A landlord can always defeat any claim by a tenant if he is willing to grant the tenant a new lease for a reasonable length at a reasonable rent. Secondly, where premises are subject to the Rent Restriction Acts and the Landlord and Tenant Act is invoked, if the tenant succeeds in establishing his right to a new lease, the rent under the new lease will be that which the Court considers reasonable. The rent need not be the standard rent under the Rent Restriction Acts, and may be in excess of it.

The Leasehold Property (Temporary Provisions) Act, 1951

This Act only applies to tenancies of a shop, or a shop with living accommodation occupied by the tenant or a person employed by the tenant for the purposes of the retail trade or business carried on in the shop, where the tenancy comes to an end within a period of two years from June 24th, 1951. Thus this Act does not apply to premises let for professional purposes, or to business premises other than a shop.

In this case the County Court may, if it appears reasonable having regard to all the circumstances, order a grant of a new tenancy for up to one year at such rent and on such terms and conditions as the Court, in all the circumstances, thinks reasonable. There are, however, five cases mentioned in the Act where the Court is not to grant a new tenancy, the three most important are:

1. Where there has been a breach of the terms of the existing tenancy.
2. An offer by the landlord of suitable alternative accommodation on reasonable terms.
3. Where greater hardship would be caused by granting a new tenancy than by refusing it.

In the case of this Act also the time limits within which action is to be taken are of first importance.

Although under this Act the tenant's chances of success may be greater than under the Landlord and Tenant Act, 1927, the maximum period of protection he can obtain is much shorter: he can obtain a maximum of one year's security of tenure on any one application. As the Act is only to continue in force for two years, although he may make further applications, he is limited by that period of time.

DEEPER ASPECTS OF ECONOMIC CRISIS

THE LOGIC OF OUR PRESENT POSITION

by A. H. BOULTON, LL.B., A.C.I.S.

THERE is no more persuasive half-truth – nor one more certain of unanimous endorsement – than the statement that the two vast and desolating wars which have cursed the world during the lifetime of the present generation have profoundly altered for the worse the economic position of Great Britain in relation to the rest of the world. It is persuasive not only because it comforts our self-respect, but also because so far as it goes, it is true. It is a half-truth because whilst it is true, it also serves to veil from our unwilling sight other things which are equally true and more fundamental to our situation.

Most of us are a little tired of being told that there is a crisis. It is due, we are told, to the war, to the ending of lend-lease, to the drain on sterling, to the welfare state, to the movement of world prices, to rearmament, to this that or the other, and all these explanations encourage us in the satisfactory belief that some sudden adventitious and unavoidable happening is the cause of our present discontents.

The truth is rather that we face a fundamental economic disbalance which has to be remedied by fundamental adjustments. The wars did not cause us to fall into a critical position, so much as destroy with two sharp blows the advantages we had gained in the economic struggle and which placed us in a falsely strong position during the half century that preceded 1914. Those advantages were temporary, and had the two wars not happened it is certain that we could not indefinitely have continued in the extraordinary position we enjoyed during those fifty years.

Victorian Scene

In 1878, a writer in Great Britain described the state of our country's industries thus:

> 'England is year by year becoming the artisan, the spinner, the weaver, the ship builder, the manufacturer, the engineer, of the world. The world is every year more and more becoming a sort of colossal agriculturist, to render marketable whose productions is the business of . . . England.'

It was an encouraging picture, and, in the decades that followed, wealth flowed to Great Britain. Because the rest of the world could not pay with its products for the industrial output of Britain, we invested overseas and by means of our export of manufactured articles – especially capital goods – built up a commercial and industrial empire quite as important in its way as that other empire which was coloured red on the map.

Because of the interests and dividends that flowed in from the commercial empire, the decline in the exports of Britain relative to imports, during the early years of this century, did not cause a crisis of readjustment. But now this commercial empire of overseas investments has almost gone. A great proportion of it has been sold or mortgaged to pay for the wars, some of its assets have been physically destroyed by hostilities, parts of it have been lost by the repudiation of their commercial obligations by foreign countries, or have been the victims of revolutions or nationalizations. And because this is so, we have now to face the readjustment.

It is not going to be easy or comfortable. We have to face the simple fact that we are not intrinsically a rich country. Apart from coal we are scarcely self-sufficient in any important mineral. Our soil is reasonably fertile, but could not, in an agricultural economy, support more than about one-third of our people. Fortunately, the seas round our shores are well stocked with fish, but for nearly every other staple foodstuff we are partly or wholly dependent on imports. We have become accustomed to living better than the citizens of other countries because of that half century when we were the workshop of the world, and we have accepted it as our right. The unpalatable truth is that we cannot do so any longer. We can only live as well as other people if and in so far as we are prepared to work as hard and as well as they.

The Clear Alternative

During the next few years we have to face a perfectly clear alternative. It is either to reduce our material standards of living all round or to work harder and more scientifically. It is not a challenge we can either heed or evade as we choose. It is a simple alternative. Unless we show the wit and the courage to do the second, the first *will* happen, and no tinkering with exchanges, nor any attempt to make wages follow prices – like a

kitten chasing its tail – will serve to fend off the inevitable. The best thing now is to do what is necessary, willingly rather than unwillingly, not waiting for the goad of final economic necessity to drive us forward.

What does it mean? It means, first and foremost, achieving full employment, so far as that is possible. But surely, it may be said, we already have that? We have nothing of the kind. We have concealed our unemployment, which is quite another thing. In the present state of the world we may reluctantly agree that the armed forces are necessary in their present strength, but we must, as economists, recognize that the million men in them, together with all their camp followers and the factory workers who supply them, are unemployed for all economic purposes. There are far too many other people doing jobs which need not be done at all. There are too many engaged in so-called 'industries' that cater only for our amusement. It is high time for many of the rules made by trade unions in days when unemployment was the bogey, and we were haunted by the fallacy of the work fund, to be revised. Too much of our national effort is frittered away in competitive duplication, and because the distribution of goods and services is less efficient than it might be. Between the basic manufacturing cost and the consumer price there are often too many pickings for too many people. And there are too many people drawing a week's wages for half a week's work, or for a week's half work.

The question is sometimes asked whether the redeployment of labour can be achieved without direction, as most of us would prefer, or whether some form of coercion will be inevitable. The truth is that coercion will be present, if not through government order, then by the play of economic forces. At the present moment we are witnessing a rise in the prices of food, coal, transport and other necessary things, concurrently with a slashing of profits in some luxury trades, especially in the clothing industry, made in an attempt to overcome the buying resistance which has developed over the last six months or so. There are immediate and detailed causes for each individual price movement, but, taken as a whole, they present an aspect of the long-term change which is being forced upon us, the movement of our human resources toward the more basic needs of food, fuel and export.

It is not enough that the knowledge of this inevitable change should be possessed by economists and legislators; somehow it must be mediated to the man in the street. We smile sometimes at the earnestness of our grandfathers of the Victorian era, but we could well recapture their vision of a life of hard work as a thing good and honourable in itself, so that the life which skilfully evades work is not seen as something clever, 'getting away with it' as the modern idiom has it, but as a cause for shame. In fact, like every important question, this concerning daily work is, at root, a matter of ethics.

Time for Puritanism?

There was a strong streak of puritanism in the England of the nineteenth century, and we could do with some of it today. The times call for hard work and frugal living in all classes, and the example must be set from the top. If we could only accept the inevitable, and absorb one round of price increases, rendered necessary by the pressure of world conditions, without demanding increases of wages and salaries and profits to meet them, we should have gone a long way toward solving the apparently insoluble problem, for we should show that we had the courage to resist the hopeless spiral. It is hard for any undertaking to take the heroic step in advance of others, and would only earn them discontent and criticism, but it will have to happen in the end – not with one but with all.

The tragedy is that for all the years since the war, when every competent economist has known that these things are so, it is seldom that any politician has had the courage to tell the people the stark truth in language they can understand. It will be a good day when a government does so. Let us not think that the changes necessary need doom us to any less full life than we have lived so far. That money cannot make folk happy, but can only enable them to be miserable in comfort, is more than a music-hall joke. It is true of nations as of individuals. Archbishop Temple once commented that it is quite good fun to be poor if we are all poor together, and it is true. If we had less commercialized pleasure and a curtailment of luxury we would have more opportunity for a spontaneous flowering of the true arts. No life is more satisfying nor more exciting than that of hard work, simple living and high thinking.

To accept the logic of our present position is a necessity and to do willingly what it demands, a duty. The path of wisdom, therefore, whether in the development of the individual business or the moulding of social change through government policy or fiscal regulation, is to make promptly the changes which are being forced upon us.

BUDGETARY CONTROL

by G. C. STONE, F.C.W.A.

Explanation of Principles

IN this article I shall confine myself to principles, but an explanation of principles will sometimes so inspire the imagination as to suggest the most detailed applications that can be made of them. If any explanations I give should suggest the degree of detail to which applications ought to be made, this is not intended. I shall endeavour to avoid making recommendations, because requirements differ with circumstances. Usually, if comparisons are made between different methods of control, it will be found that the principles applied vary little and that any particular application is either an elaboration or simplification of practices elsewhere. Always, the essential point to be settled is whether what is being done achieves the result intended. If this is the standard by which methods are to be judged, there are aspects of many control systems that are unique, that are expressive of the adaptability of those who devised them, and that, because of their uniqueness, are not mentioned in any text-book on the subject.

Management Accounting

Budgetary control is part of what is now freely referred to as management accounting. To increase the efficiency of business management, this form of accounting will have to become better known and more widely applied. In recent months, special prominence has been given to this kind of accounting by the sending of a team of specialists to the United States of America. Its purpose was to investigate applications of management accounting in that country. The team's terms of reference were:

> 'To find out what accounting, costing and statistical information is provided for American management at different levels: by what methods it is obtained and how it is used.'

Subsequent to the return of the team, it published a report entitled 'Management accounting' which has had an exceptional circulation for such a report, and amongst the recommendations contained in it are:

> 'That management, in considering the future and preparing plans, should make the fullest use of budgeting and forecasting, based on accounting and costing data;
>
> 'That top management should make use of standards of performance and of accounting control techniques to enable it to decentralize responsibility, and that all standards of performance should be agreed with those who are to work to them;
>
> 'That top management should bring industrial accountants into consultation in the early stages of formulating policy, so that they may later report more intelligently;
>
> 'That industrial accountants should constantly consider what information is required by management at different levels, bearing in mind that senior management should be chiefly concerned with forecasting and setting targets, and other levels more with day-to-day action;
>
> 'That industrial accountants should make great efforts to acquaint themselves with the problems of management and the technical processes in their industry, and concentrate their efforts towards producing information which will serve as a guide to policy and action.'

These recommendations serve to imply what management accounting is.

Overall Policy

A budget is another term for an overall policy except that it also provides the standards through which to apply that policy. It defines the plan and provides the means to initiate it and direct the fulfilment of it. Facilities for the control of the plan are provided by the comparisons between the actual results and the budget. Control is exercised by the action taken by the management, based on this information. This action can include the sustaining and intensification of a policy, or revising it or superseding it.

At the International Conference on Budgetary Control held at Geneva in 1930 this definition was adopted:

> 'Budgeting is not merely control: it is not merely forecasting: it is an exact and vigorous analysis of the past and the probable and desired future experience with a view to substituting considered intentions for opportunism in management.'

This definition emphasized that management must be for the future. It also reveals the need for individual decisions to be such, that what is intended to happen shall be for the good of the whole and not for single elements of it.

Lessons learnt from the past may be accompanied by either regrets or congratulations, but what was achieved is now unalterable and any benefits to be derived will be from future applications of the experience obtained.

Because management must deal with conditions expected in the future, past results are not always the best guide to what may happen, as these results may be related to internal and external circumstances that have either changed or ceased to exist.

When outgoing charges are based on cost investigation, the custom is for overhead rates for application in the current year to be based on the accounts that have been audited and certified for the previous year. But actual results for the portion of the current year that has expired and, more particularly, the budget for the remainder of that year, may disclose that those overhead rates would cause a hardship because of rises in price levels. Hence, the inference is that

A lecture given to the Birmingham and District Society of Chartered Accountants on October 31st, 1951.

when prices are unstable, it is wise to use past results tentatively and reserve the right to make adjustments when the audited accounts for the current year are available.

Requirements of Budget known in Advance

Before an overall plan is adopted, budgets for several alternatives are usually prepared and closely examined. But when the plan has been decided, the requirements for the fulfilment of it are known in advance of the period to which it is to apply. This can be of practical value, especially if requirements include additions to such items as capital invested in the business, fixed assets and stock in trade. If these needs are expected, the budget will have to be prepared well in advance of the period to which it is to apply, so that the additional facilities can be available when they are wanted.

At this stage it can be concluded, and quite rightly, that management must be involved in planning and control. For planning, forecasts are needed of the trend of economic influences and of the results expected from alternative programmes. For control, actual results need to be compared with the budget to disclose whether action is necessary to secure a closer fulfilment of the policies adopted.

Since, in many instances, selling prices are fixed before the commencement of marketing efforts, it is known that if profits are to be made, costs must be controlled at levels below these prices. To achieve the best results, budgets should be related to the circumstances expected and if conditions change, suitable alterations should be made in the budgets, and, if necessary, at short intervals.

Budgets Initiate Action

Budgets are used to authorize and initiate action. When the budgets are in being, the people directly involved are required to achieve the standards fixed and they can be left to their own initiative and resourcefulness, subject to the company's basic policies being observed. By these means, an important decentralization and localization of responsibilities is achieved, and the extent of authority exercisable at each level of responsibility is either defined or implied. Thus clarity is given to the organization and relationship of responsibilities. Although budgetary control is applicable to businesses of all sizes, it is of outstanding value in facilitating this decentralization of responsibility and in relieving the strain on the intermediate and higher levels of management.

By means of the budgets set from the highest levels, progressively down to the foreman's level, a definition is provided at each of these levels of the part to be performed in the overall plan. This is of practical value in the co-ordinating of effort in large businesses where there are many departments in each of several factories under a common owner and perhaps in addition a marketing system involving several warehouses and sales offices in strategic positions.

Objectives of Budgetary Control

The information which defines the responsibility and authority of each person contributing to the joint effort can be in quantities and in value. The subjects to which this information is related can include orders receivable, sales to be invoiced, stocks to be held, materials to be purchased, labour to be employed and operating expenses. In summary, the objectives of budgetary control in private enterprise are:

(*a*) To plan and control the income and expenditure of manufacturing and trading operations so that the most practicable profit is obtained;

(*b*) To plan and control the capital expenditure of a business;

(*c*) To plan and control expenditure on development and research in so far as such expenditure is not applicable to normal manufacturing and trading operations, or is not covered by a capital expenditure budget;

(*d*) To plan and control the financing of a business so that adequate working capital, including liquid resources, is available for carrying out the policy of the business;

(*e*) To act as an instrument of management policy whereby the extension of the scheme to lower levels of management enables top management to decentralize responsibility and centralize control.

Every company of limited liability must have a profit and loss account and balance sheet that conform with the requirements of the Companies Act, 1948. Each of these statements is prepared historically, that is, following the period or the date to which it applies.

The objects of budgetary control can include a forecasted profit and loss account for a future period, and a forecasted balance sheet as at the end of that period. What is contained in these forecasted statements is a consolidation of the results that will be achieved if the various budgets from which they are compiled are fulfilled.

Many will be intimately familiar with the audit procedure for a profit and loss account and a balance sheet, and with the audit schedules and notes compiled in support of what is contained in these statements. Based on this experience of audit work, there will be an appreciation that some similar schedules and notes are desirable in support of both statements on a forecasted basis.

Operating Budgets and Requirement Budgets

All budgets can be resolved into the two broad classifications of operating budgets and requirements budgets. Operating budgets are used in the forecasting of a trading result and that means a profit and loss account can be compiled from what they contain. Requirements budgets affect items on the balance sheet and what they contain usually causes the differences between successive balance sheets. They are usually related to changes that are either expected or intended to occur after the date of the

last balance sheet, and contribute to those changes that will appear in the forthcoming one.

In the category of *operating budgets* there are:

Sales: which determine products to be sold and the value of them.

Production: to plan for the products to be available at a time, at a cost and in quantities, all of which conform with the overall plan. This will provide for the requirements of the sales budget and perhaps in addition an increase or decrease in finished stock.

Operating costs: production, with segregations for direct labour, direct material and overheads planned for the achievement of the production budget.

Selling and distribution, to provide control over the costs of marketing which are associated with widely scattered activities that are otherwise difficult to supervise.

Development and research – at an authorized expense so that what otherwise might be vague becomes the subject of a definite policy.

In the category of *requirements budget* there are:

Capital expenditure: usually this will be for one or more of such purposes as providing facilities to increase output, to improve efficiency and the replacement of worn-out assets. This expenditure may be related to the same overall plan as for operating budgets, but it is, in addition, sometimes related to a plan for a much longer term.

Purchasing is an authority to purchase all requirements of materials other than fixed assets, and provides for the consumption expected and the variations planned in closing stocks.

Cash contains all expected receipts such as from sales and sundry sources, and all expected disbursements for purchases, taxes, the servicing of the capital invested in the business, and sundry payments. The amounts for the transactions expected when related to the opening balance enable a closing balance to be forecasted.

In the case of private enterprise, an essential purpose is to budget for a profit. That profit will be required to service the capital invested in the business and perhaps, in addition, to provide for growth and contingencies.

Absorption of Overheads

In the application of the profit-earning techniques, one of the elementary problems of management is to formulate a policy that will provide for the absorption of fixed overheads. When considering such a policy, management is often confronted with the alternatives of either making an article at one cost, or purchasing it at a lower cost.

If it is decided that an article is to be purchased when the capacity for making it in the business is available, that decision will mean that the business will earn less to the extent of the difference between its prime cost or variable cost, and the price paid to the outside supplier.

The principle that is applicable on this occasion is the same as that involved in the absenteeism of machine operators. If a machine is idle, due to the absence of an operator who is paid £2 a day on a process for which the overhead rate is 500 per cent, the loss of revenue to the business is £10 per day, plus the profit on the goods not produced.

Most Effective use of Resources

With the use of budgets, a programme can be formulated that will permit the most effective use of resources to be made. Profit expected may be related to either the capital invested or the capital employed in the business, and the assessment so made is the most important ratio as an index of efficiency. Among the other ratios that can be used, all of which serve a purpose but are subordinate to the profit ratio, are:

Ratio of cash to sundry creditors.
Ratio of cash and debtors to current liabilities.
Ratio of net worth and loan indebtedness to fixed assets.
Ratio of net worth to current liabilities.
Ratio of stock to sales turnover.
Ratio of sales to fixed assets.
Ratio of sales to total assets.

Directives regarding Aims

For the preparation of a budget, some general or specific directives regarding aims may be given from a high level. Before the issue of these directives, variations for the predetermining of profits may have been examined in product volume, product ratios, quality, design, selling prices and methods of manufacture and marketing. Subsequently, the more detailed work can be done by various means, the choice of any one or more of which may differ according to circumstances.

For example, standards may be suggested at one level and approved at the next higher level, and so on up to the highest levels. Alternatively, the budget may be produced at one level and submitted for acceptance at the lower level. A further alternative applies when a budget officer does the work, aided by a committee. Whatever the method, there should be the authority at some level for the promotion of economy at lower levels.

In the full routine, the most detailed information is used to compile intermediate summaries, and the process of summarization is continued until the final summaries are produced. The final approvals should be given by the board of directors.

For the control of the plan, statements should be issued on actual results to compare with the budget, and variances should be disclosed with reasons for them. A form of accounting structure which is ideal for this purpose is contained in a publication of The Institute of Chartered Accountants in England and Wales entitled *Developments in cost accounting.*

This structure is based on integration of the cost and financial accounts, and provides for the cost headings used in the compilation of the certified accounts to appear in the departmentalized costs as supplied down to the foreman's level.

Information from Management Accountants

The information services supplied by management accountants cause the work done by them and the auditor or visiting accountant to differ. The man in public practice is often involved in historical accounting which is expressive of audit or taxation practices, and, if time permits, as sometimes it does, there can be repeated checking for accuracies, so that the soundest or most perfect application of principles can be made.

The management accountant, in contrast, is required to render a more dynamic service in the supply of information, so that the most logical and immediate action can be taken, based on it. This information has to be related to local conditions which frequently are unrelated to problems which exist elsewhere.

To be effective, this information has to be made available as quickly as possible, so as to give management the opportunity of taking action arising from it. Experienced people know that it is better to have information within a week which is 95 per cent accurate than to wait several weeks for accuracy of 100 per cent.

Preparation of Information

The good annual results which the visiting accountant audits, are usually the aggregate of good results that have only been made possible by very close management control, exercised hour by hour, day by day, week by week and month by month. Obviously, for control to be exercised with such frequency, information has to be available to enable it to be done.

The preparation of this information, and particularly that used to compile interim profit and loss accounts and balance sheets, involves problems not encountered in the work of the visiting accountant, such as the interim valuation of stock-in-trade against the background of very complicated technical principles.

The results disclosed by the certified accounts of a company in an orthodox form quite often contain the net effect of counterbalancing influences. For example, the benefits that normally ought to be derived from an increase in sales turnover may be offset by an unforeseen increase in costs. Because under budgetary control the actual results are compared with a standard for each item, there are disclosed deviations from expected results and according to whether they have been advantageous or otherwise to the net achievement. I have reiterated several times the value of this kind of information as a basis for action.

Flexible Budgets

I have previously stated that the budget must represent a current standard and that means if conditions change, the standard must be modified. Hence, for practical purposes there must be flexibility in the system and this is usually provided by what are known as 'flexible budgets'. Budgets of this kind contain alternative standards for different degrees of activity and for different price levels. There are, however, limits to the extent to which flexible budgets can be used, and when these limits have been exceeded, new budget standards are required.

The choice of period to which a budget shall apply varies. In the case of operating budgets they are usually for a financial year and are apportioned into separate weekly, monthly and quarterly periods. Aggregations of each are made with the progress of the year, so that both period and cumulative results can be judged.

For balance sheet items, the periods may be fractions of a year, a year, or in excess of a year. Budgets in excess of a year apply particularly to fixed assets, for which long-term planning is sometimes necessary, as a consequence of which there may be budget periods as long as five years.

Supplementary Remuneration

Incentives are sometimes provided for the fulfilment of budgets by offering supplements to basic remuneration to responsible people. These incentives can be related to physical achievement such as is represented by production or sales obtained, and, separately, for the achievement of economy.

Senior management can be given supplementary remuneration based on the elements just mentioned, as well as other elements in which they are more particularly represented. These other elements can include profit and some of the other balance sheet ratios to which I have previously referred.

Budget Control System Manual

In the largest of companies, a special manual is sometimes issued containing a description of the budget control system of the company. In such a manual there is usually a description in detail of all of the principles we have been considering, and the application of them in the form of a practical scheme. This manual contains a list of all the ledger folios or standing order numbers that have to be used, the regulations that have to be observed, and the persons by whom they have to be observed in the functioning of the control system.

Such a manual is essential in cases where there are several units under common ownership which may exist in different parts of one country or be spread over several countries.

The contents of the budget manual provide guidance, so that each unit can prepare the budgets in a prescribed manner so that a consolidation of all budgets for the entire group will be possible.

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THE ACCOUNTANT IN INDUSTRY

by BASIL SMALLPEICE, B.Com., A.C.A.
Financial Comptroller, British Overseas Airways Corporation

Introductory

I HAVE been somewhat at a loss to know which aspect of this subject to consider – to know what sort of things students are feeling concerned about and would like me to touch upon. In trying to make up my mind, I have been thinking back to the time when I was myself nearing the end of my articles. That was back in 1930 – a longish time ago, or so it seems when I look back on it.

Those of us who were articled in those days were making up our minds whether to stay on in a practising office or to go into industry – much, I suppose, as students are doing today. As far as I remember, I was quite clear what I wanted to do; I wanted to take part in the production of things myself, rather than to check over the results of what other people had achieved. I had not much idea what form this taking part in the production of things would take. But it was obvious that there was a lot of accounting work to be done, and that accountants were needed inside industry as well as outside it. So in I went, not knowing what to expect.

At that time there were not many people to ask advice from about an industrial career as a chartered accountant. If I was not one of the first of the qualified to go into industry, I was not so very long afterwards. Apart from individual cases, the movement did not really begin to be a 'movement' until the middle 'twenties and was only getting under way by about 1930. So that the country we were going into was largely uncharted, virgin territory. One had to find one's own way and learn by one's own mistakes. But I confess I should have liked to have heard from someone, who had been there before, what the lie of the land was like.

During the last twenty years I have travelled some way along the road that those students who are going into industry will have to take. So I think the best thing I can do is to tell you, as I should have liked someone to have told me when I was younger, something of what you are likely to find as you go along, and what you should look out for. And if some of you are staying on in the practising half of the profession, or have not yet made up your minds, you will, I hope, be interested to learn something of what an accountant's job in industry involves.

Scope and Opportunity

I run into difficulty at the outset. I am almost bound to speak subjectively, from my own experience; and I am not sure whether the experience of those of us who went into industry in those days is a reliable guide for today. You see, we went into industry at a particularly fortunate moment, from our point of view. There were no qualified men there already – or hardly any. We sailed in on the crest of the wave, and – to mix metaphors abominably – rose to the top of our particular little trees very quickly. We were cultivating new ground, and getting quick returns.

For instance, by the time I was twenty-five I found myself as accountant of a company employing some fifteen hundred people, and it fell to my lot to devise and install from scratch in a new factory a complete accounting system based on standard costing. That is the sort of abnormal opportunity, which was common enough at the time, but which will not occur again so often.

There are still plenty of opportunities for a good man, as there always will be. The difference is that in the days when I started, you did not have to be good to get on; now you have to be. It is no longer, though, in starting from scratch that opportunities occur, but in developing and improving upon what has already been begun – and occasionally in undoing what has been done none too well (always more difficult!).

An Example

I think perhaps that, by way of example, it may be worth while quoting the present position in the organization in which I work. We handle a revenue-plus-expenditure turnover of some £70 million a year, in thirty-three different currencies, the control of which in my particular industry is highly complex. I have on my staff 15 chartered, 8 incorporated, 5 cost and works, and 8 certified accountants – in all 36 accountants with qualifications, of whom 8 are on the internal audit staff.

I do not know whether the staff situation is similar elsewhere. But I think it must bear some resemblance in those cases where the accounting is well developed. This does not by any means indicate that the industrial market is saturated. On the contrary, it illustrates the scale of the demand. And there is a need for chartered accountants in particular – especially when to the initial advantage of training under articles, they can add experience of management accounting.

It is in the direction of management accounting that opportunity lies. And that is so, in my view, whether you go into industry or stay on the practising side. We are not yet far across the threshhold of management accountancy. There are many opportunities for enterprise and initiative in developing accountancy as something productive in itself – whether inside industry or in providing a service to industry from private practice.

An address to the Chartered Accountant Students' Society of London on November 12th, 1951, with Sir Harold Barton, F.C.A., in the chair.

A Different Attitude to Accountancy

Well, now – suppose you have just gone into industry. What do you find?

It depends, of course, on the kind of job you are going into in industry. There are jobs in which the accountant is called upon to do nothing very different from what he would have done in a practising accountant's office – preparation of annual and consolidated accounts, taxation, and internal audit work – the only difference being that he does it for one firm instead of for a series of clients. You generally find such jobs in the bigger organizations, in holding companies and in finance houses. But the greater number of jobs in industry – whether in manufacture, in distribution or in transport – are those in which the accountant has the chance of becoming a real aid to management. And it is these jobs that I am talking about primarily.

If you are sensitive to atmosphere, I think that what will strike you most is that there is in that sort of job a completely different attitude to accounting from that which you acquire while under articles. I only say I think so, because I have not worked in a practising accountant's office for over twenty years now, and do not want to be dogmatic about it. But I know quite well that that was my own experience, and others confirm it. Moreover, when I have taken on people straight from articles or employment in practice, I have found that they invariably require six months to a year before they adjust themselves to the new atmosphere and before they become of much practical value. This does not apply, of course, if they are being taken on for internal audit or taxation or consolidation work. But those students who are going in for management accounting in industry must reckon on having to undergo a mental revolution in the early stages.

Value of Training under Articles

I hope no one will conclude because I have just said a mental revolution is necessary, or because of what I shall say later, that training under articles does not give one the right sort of start for going into industry. On the contrary, training under articles gives one a sound instruction in basic accountancy, and a breadth of experience it would be impossible to get in any other way. But it does not – indeed, it cannot – prepare you for the use of accounting in the day-to-day process of managing a business. After all, when you go out on audit or even when you write up accounts as an articled clerk, you (and your senior too, for that matter) are outside the businesses whose accounts you are working on. You are not part and parcel of the management. Consequently, it is only natural that you should come to think of accounting not as a vital part of the process of management, but rather as a matter of keeping necessary records and collecting debts and periodically getting out a balance sheet to see what has happened to the shareholders' or the partners' capital.

And when you prepare accounts, you spend a lot of time thinking about this balance sheet. For you, it is the key document, and you must consider carefully how all the various items in it should be shown and grouped – so as to give a true and fair view of the position at the appropriate date. Admittedly, the 1948 Act now makes it necessary to consider whether the profit and loss account also is true and fair. But there is so little information in a published profit and loss account, and anyway it is not a management document, that even this legal requirement will not, I suspect, help to prepare you for the radical change in mental approach you will have to make.

Prompt and Frequent Accounts

For when you get into industry, you will find that in general, nobody bothers much about the balance sheet – except once a year, when this document comes into its own again. Otherwise, the main emphasis is on trading and profit and loss accounts, which are required promptly and at frequent intervals for management purposes – so that management knows week by week and month by month how things are going in every aspect of the undertaking, and what corrective action is needed to bring the ship back on course.

For this kind of purpose, it will not be much good if you put forward a profit and loss account which is drawn up on the lines of the old accounting textbook examples, listing all the expenditure of the business by kind – that is to say, showing total salaries, total wages, total materials, total rent and rates, and so on. It will not be much good, because that sort of account does not tell you *why* the result is what it is, and *why* it is different from what it was last year or what you expected it to be. It is no good if, to find this out, you have to go back and analyse all account headings to find out what has gone wrong. That takes too long. So you want the accounts to throw up the information automatically.

You begin, then, by grouping all expenditure by processes and by the reason for incurring it; and then you go further and break expenditure down into departments according to the organizational pattern of the business, so that those responsible for spending money are held responsible for what they spend. I will come back later to this business of breaking down expenditure. But meanwhile, the point to note is that you must always be able to answer the question – *why has this happened?* In fact, you should not only be ready to answer; you should be able to offer the explanation *before* the question is put.

When I said just now that nobody bothered much about the balance sheet, I hope you will not imagine that one just lets everything rip. Of course not. The ratio of debtors to turnover has to be kept under constant observation, in terms of the number of days' sales outstanding. Similarly with the rate of stock-turn, the ratio of stock-in-trade to turnover; and also with the ratio of fixed assets to turnover. Cash and bank balances, too, have to be carefully forecast and watched.

Service to Management

But we do not build up what is not required for management purposes. Accounting is no longer merely a matter of keeping records. Once inside industry, the primary purpose of accountancy is different. It exists, and is maintained, to help management manage the business better than they could without it. And that change in emphasis is all-important. It affects the whole accounting system and should govern everyone's approach to it.

I do not propose to tell you how you set about this in detail: cases and industries vary so much. There is no set method – apart from one of general application I shall be coming to in a moment – and in the main everyone must work out his own solution to the particular problem he is confronted with.

The main thing is to get the idea firmly into one's head that, inside industry, accounting has no claim to exist in its own right. Apart from facilitating the systematic collection of debts, and ensuring that no one misappropriates anything of value, it does not earn its keep, and it is a dead loss, unless (as I said a moment ago) it helps management to manage better than if it were not there. If you keep that thought in the forefront of your minds all the time, and provided you have the necessary technical competence, you will not have much difficulty.

A Different Attitude to Costing

Now what about costing?

I wonder what you think costing is all about. I have not sufficient contact with articled clerks to enable me to know what sort of views they are forming. If I knew, I should know better what to say. But a dip into recent editions of some text-books on the subject leads me to think that you may still be getting hold of the same kind of ideas as I did, when I was nearing my Final.

The picture I formed was that costing was something separate and rather different from accounting, which you resorted to when you wanted to find out what a contract or a job or a process or a product had cost. I gathered that those who did costing had to go into much more detail than was necessary in accounting, and had to refer to the accounts people to pick up overheads and any other figures they could not get themselves. The accounts, of course, provided the only genuine figures! And at the end of the year, or whatever the period of account was, the costs had to be reconciled with the accounts – unless one was prepared to forget the differences.

If that is the view you have formed, then you must get rid of it before very long. There is some historical justification, of course, for the existence of such a view. Someone whom I shall refer to as 'the financial accountant' had always prepared the overall accounts of a business. But the size and complexity of industry increased in the early part of this century; and when managers and engineers felt that, to enable them to manage effectively, they wanted more detailed information about all the various aspects of the business than the financial accountant could or seemed able to provide, they either set out to get this information themselves or appointed an assistant to do it for them. And so the cost accountant arrived, someone separate and distinct from the financial accountant. And so, too, the Institute of Cost and Works Accountants came into being – that was in 1919.

Financial Accountant and Cost Accountant

This separation between the financial accountant and the cost accountant – this apparent distinction between accounting and costing – only came about because the financial accountants of those days did not rise to the occasion, and because someone had to be brought in to remedy their shortcomings. But there ought to be no such separation and no such distinction. Costing is part and parcel of accounting. And if you go into a business where this is not the case, and where the cost accountant is not subordinate to or the same person as the chief accountant, then – I venture to say – you can be quite sure the accounting is failing to do its proper job.

Costing is not a separate activity from accounting; and there ought to be no need whatever for reconciliation between costs and accounts. I said just now that ordinary profit and loss accounts were insufficient for management and that you must break them down to departments and processes according to the organizational pattern of the business. I used the words 'break the accounts down', because that is the way we used to look at it. But that is not what happens in practice. You do not first compile the text-book style profit and loss account, and then break it down. It is quite the other way round. In the first instance you analyse all costs and revenues in whatever degree of detail is required for cost control or management purposes; then you summarize, and summarize again, until the profit and loss account emerges. It will not emerge in text-book form, but that need not bother you. It is the use that management can make of the account that matters, not the text-book. So you see, the accounts are summaries of the cost statements; or, if you like to put it another way, the financial accounts are the control accounts of the cost accounts; and the question of reconciliation just does not arise.

No such thing as an 'Absolute Cost'

There is another point I want to touch on very briefly in regard to costing. One of the purposes of costing is, obviously, to find out what things cost. And there was a time when I used to think that a cost was 'a fact' – one that holds good in all circumstances. Of course, if your firm are contractors, and you are job-costing their contracts, you can arrive at a figure that is definite enough to enable you to charge your customers or to calculate what profit the firm has made on the contract. But apart from this kind of special case, all my experience has gone to convince me that there is no such thing as an

absolute cost. You cannot just add up all the items of direct costs and overheads, and reach a figure that holds good in all circumstances.

Why not? Because one does not prepare costs as a theoretical exercise, but for a practical purpose; and that is to enable management to make a decision. In most cases, management wants to decide whether it is worth while *doing* something or *stopping* doing something; and to help them decide, they want to know what costs they will incur or cease to incur in consequence. It is only the costs and revenues that will be affected by their decision that they want to take into account.

Suppose they are wondering whether to take an extra order – if overheads are fully recovered on existing business, and the order does not involve the purchase of extra plant, it may well pay to take it at a price that does not include a full allowance for overheads and other standing charges. In this case, what the costs should disclose is what you will actually have to spend, out of pocket, if you get the order. That is the lower price limit, and any higher price will show a profit – subject, of course, to there being no repercussive effect on other selling prices from having taken this order at a cut price.

Costs all depend, in fact, on the circumstances of the case, and will vary accordingly. Once you grasp that principle, you will not find it difficult to apply it. But – and I cannot over-emphazise this – you must, of course, always find out the purpose for which a cost is required. If someone asks you for the cost of something, and does not explain what he is using it for, you must always ask him why, or else qualify your answer by carefully specifying the circumstances to which your figure of cost applies.

Management Accounting

What I have just said about costs will have served to underline the point I made in talking about accounting. When you are working in industry, you will, I hope, soon come to realize not only that accounts and costs are part and parcel of the same thing, but also that the purpose of it all is to help management to manage. It follows then that the technique of accounting has to be such as to provide management readily with what it wants. Let us take this thought a little further.

Management works in various ways. Sometimes, when the scale of operations is not large, it may work very successfully by 'hunch' or instinct. But in most cases of any size or complexity, forward planning and financial estimating are essential – either consciously or sub-consciously. And what management want the accounts to tell them is whether and, if so, why the results are different from what they expected them to be.

I remember how, in my early days in industry, I used to get quite exasperated when one of our managers, to whom I was presenting the accounts of his department, would say of the result: 'Yes, that's just about right'; or 'No, that can't be right.' Here was someone who was an engineer and not an accountant telling me whether the accounts were right or wrong! And, what was worse, he could give me chapter and verse in support of his opinion. 'On a normal basis' he would say, 'I should have expected such and such a result. But this, that and the other has happened, so the result should be so much.' Whereas, if the result was different from what he was expecting, I could not readily say why.

A Challenge to Skill and Ability

Accountancy was not much good, I thought, if it could not do at least as well as this engineer-manager could do without any books. And I made up my mind not to be left in that position for long. About that time I had come across an American book on standard costing. I was interested in standard costing as a technique of accounting for three reasons: firstly, because costs were fully integrated into the accounts and this wretched separation of the two (with the need for subsequent reconciliation) would be avoided; secondly, because it automatically provided accurate interim accounts without the need for physical stock-taking; and thirdly, because it would throw up the cost of variations from a predetermined cost standard.

The first two were simply improvements in accounting technique. But it was the third – the possibility that accounting processes could be used to throw up quickly the cost of variations from predetermined technical standards – it was *this* possibility that opened the way to accountancy becoming of real value as an aid to management. You see, all you had to do was to incorporate in the standard, and in the budgets that formed part of the standard, all the technical and other assumptions this engineer-manager habitually made – and you would have in your hands a mechanism that would tell you not only why results were different from expectation but also by how much they were different for each reason.

This job of designing the accounting so that it automatically discloses the reasons for fluctuations in costs or profits is very fascinating; it is certainly a challenge to your skill and ability.

Technical Factors

Not only will you have to talk in the language of the industry you are serving, but you will also have to bring into your purview all sorts of factors that may seem at first sight to have little to do with accountancy – things like the speed and efficiency of different machines, the efficiency of labour, the utilization of equipment and space, and so on. To all these factors you will have to apply some value in terms of money, to assess what effect variations in these factors have on costs or profits. After all, it is those factors, and others like them, which are the really important things in the economics of industry.

Generally speaking, you can only bring these factors into account through standard costing. If, in the course of your articles, you have not come across

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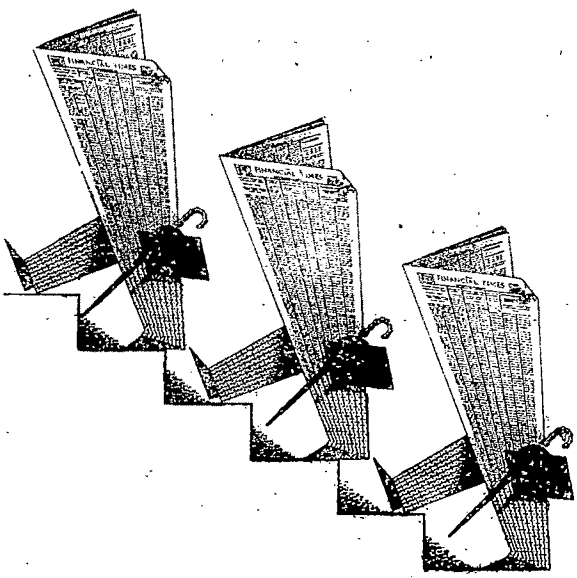

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standard costing in practice, you may well wonder why some of us stress it so much. Even if you have come across it, you would most likely not have been looking at it from the management angle. I am afraid, too, that the name is misleading and badly chosen. Just as the square mile of the City is, as the Lord Mayor said the other night, neither square nor a mile, so standard costing is neither standard in the sense of being uniform, nor costing in the sense of being distinct from accounting. It is a *method of accounting* and it is a method which incorporates within it standards of performance in respect of all technical aspects of a business, together with the predetermined costs of those performance standards.

This is the one method I referred to earlier as being capable of general application. It is by far the most effective technique for giving management real control of costs and financial results. In fact, I would go so far as to say that it is probably only by adopting this technique that accountancy can make its most productive contribution to industrial management.

Problems of Personal Adjustment

I hope I have said enough by now to make it clear that when you go into industry, you will have to adopt an attitude to accountancy very different from that which you acquire under articles. I also hope no one will feel that what I have said involves any reflection on the practice of public accountancy; it does not. The necessity for a change of attitude simply arises from the obvious fact that, from outside, you regard accounts in one way; from inside, you regard them in another. That's all there is to it; but the necessity for a different attitude brings with it certain problems of personal adjustment which I would like to touch upon.

I have always remembered a piece of advice I got from one of the qualified men in the firm I was articled to. He left while I was still there and went into industry. He came back to see us not long afterwards, and I asked him how he had found things. He said: 'I'll tell you one thing I have learnt – and that is, once you are in a job, you have got to forget you are a chartered accountant'.

Now, in one sense, far from forgetting you are an A.C.A., you have got to remember it – and I shall come back to that later. But in another sense, the advice this man gave me was very sound. What he meant, of course, was this. Your training under articles, and your taking of the Institute's examinations, have provided you with as good a qualification in accountancy as you can get anywhere. But, for heaven's sake, don't allow yourself for a minute to feel superior, as of right, to the practical people already in the industry, whether qualified or not and whether accountants or not. You have got a lot to learn, and it is fatal to kid yourself that because you are a fully-fledged chartered accountant you know what's what. You may know something about accountancy. But you do not know much about management, or even management accounting – not yet. And you do not know the technical side of the industry you are going into.

Be Near to the Management

So tuck away your knowledge of accounting at the back of your mind for a while. It will not rust; and it will not desert you. Forget, too, the onlooker's view of accounts which you necessarily acquire under articles. And try to absorb into your thinking the practical approach to problems of management. Study the technical processes of the industry you go into – not for their own sake, but for what they can tell you about the factors that influence cost and profit.

The technical people in the firm know these factors well enough from experience and sometimes by instinct, and if you put up costs or accounts that ignore them, they will write you off as no good. In any case, you want, for your own purposes, to get to know every single factor that influences the financial results because you have got to include in your standard costs every one of these factors that is significant; and also because you will not be able, otherwise, to give a sensible explanation of why results are not what was expected.

To be successful in this, you have got to be near the management you are trying to serve – near the factory, if it is a factory. You may perhaps have gained the impression that accounting can just as well be done away from the scene of action. But it cannot – not if it is to be of real use. Something essential is lost, if the accounting is not close alongside the job and the management. For it is only by being in close proximity with both that the accounting will become sufficiently practical; and it is only in that way that you yourself will be able to get out into the works often enough, and see and learn for yourself the technical side of the business.

Lightness of Touch

For this reason, too, try to decentralize accounting as much as possible, so that it is close to the management it is trying to serve. Even if it seems to be more expensive to decentralize it, which is not often the case, it will still be worth while if it helps management to run the show better. You can lose more money by inefficient management than you *need* spend in decentralizing the accounting.

I emphasized the word *need* because there is all the difference in the world between good and bad accounting. Accountancy is an art, not a science. I have known a business where the accounting was carried through laboriously, producing much information of little value with great effort and long delays, by a staff of 200. I saw the same business two years later, with another accountant in charge, and found a lesser amount of far more valuable information being produced promptly, with apparent effortlessness with a staff of only 130. You can be clumsy and ham-fisted in accountancy as in other things. What you should try and develop is a lightness of touch in

the handling of detail and in the design of method, which produces what is required with the minimum of effort – and produces it promptly, of course. A manager will tell you that approximate news is far more use than accurate history.

Avoid Technical Accounting Jargon

Which brings us back to what management wants. And one more thing management wants is intelligible English. When you write reports or memoranda, you must be able to say simply, clearly and concisely what you have to say, in language that is understandable to a layman in accountancy. None of this technical accounting jargon it is so easy to slip into! You may wonder why I have bothered to mention this point; but I am continually amazed to find how few accountants seem capable of clear exposition and explanation.

And that is a pity. Because when you go into industry, you enter a rough-and-tumble sort of world. It is not like the practising side of the profession, where more often than not you consort with people who are accountants like yourself and where you can talk a technical language of your own. In industry, you work with production engineers, works managers, sales managers, and technical people of all kinds. You have to justify yourself and your work to them. If what you say does not make sense, they will soon tear you to pieces. And if you cannot express yourself clearly, in language they can understand, you are at a serious loss from the start.

I think this necessity for accountants in industry to justify themselves and what they do to their colleagues, some of whom start by being sceptical of the financial mind, is one of the best things that has happened to the profession. It has effectively prevented us from becoming complacent, and has forced us to model our thoughts and our techniques along severely practical lines.

One last point on this subject: when you go into industry, you will probably find yourself in charge of staff before very long, and perhaps a large staff. In addition to knowing your accountancy, and absorbing as much as is necessary of the technical side of the industry you are going into, you have got to learn the art of handling and managing staff. There are periods, unfortunately, when the sheer pressure of events forces you to concentrate all your attention on problems of accounting technique, and of financial management and reorganization. I have myself been through one of these phases during the last two years. But it is not enough, in the long run, to be a good accountant and no more. You have also got to be a good manager and to exercise qualities of human leadership in your own section or department of the business, engendering in those who work for you the urge to give of their best.

Professional Obligations

Now, although it is a helpful device, in adjusting yourself to the industrial climate, to relegate your professional qualifications to the back of your mind, it is at the same time important to remember the obligations that attach to them.

But what obligations?

Let me begin by saying that if you go into industry, you do *not* 'leave the profession' – which is the expression often used. You are still a chartered accountant and a member of the Institute. You have simply decided to practise your craft in a setting other than public practice, but you are still in the profession.

No. The idea that you are not practising your profession unless you apply your own professed knowledge to the affairs of others will not bear serious examination. The essence of the matter is that in a profession you have to acquire the necessary skill and knowledge to become competent by a rigorous programme of practical training and study. But once you have acquired your competence, and have been admitted an Associate, you may practise your profession either by joining or working for a firm that offers its services to all and sundry, or by going into industry and offering your services to one employer in particular.

So that means that when you go into industry, you still carry with you the obligations attaching to membership of your profession.

'I hold every man', wrote Francis Bacon, 'a debtor to his profession.' This Institute, of which we are members or students, is the repository of our store of professed knowledge in the particular department of learning we call accountancy. All of us in turn draw on this store, in acquiring our own personal knowledge and competence in the art; and we draw on it through the persons of those to whom we are articled and those who coach us for our examinations and those who help us in other ways. It does not end there, of course; for we can go on drawing on it all our lives. It is for having been provided with part of this store of professed knowledge that we are debtors to our profession.

Making New Knowledge Available

That means – though I need hardly explain this to budding accountants – that we have an obligation to repay what we have been lent, and with interest. We have an obligation to put back into the common store, for the common good, the benefit of such new experience as we ourselves discover on our journey through life – so that those who come after may benefit by our experience just as we have benefited by those who have gone before us. This we can do in various ways; primarily by taking part in the Institute's activities and by making new knowledge and experience available to any who want to know of them. There can be no copyright of method in a true profession. We best repay our debt to the past by ploughing back present experience to provide a more fertile soil for the future.

Secondly, we have an obligation to preserve with due respect and care what has been handed down to us. Professions are essentially conservative in char-

acter, admitting new practices and features only when they have been tested and proved. The basis of our profession is still private practice and, for all I know, may always be. But while each generation as it comes along should seek to preserve what is best from the past, and build upon that foundation, there must always be room for experiment and innovation.

Thirdly, we have an obligation not to let our professed knowledge and techniques be used in a manner contrary to the standards of our profession or to the dictates of our conscience. The man in industry will find this kind of situation harder to face than his colleague in practice. If you are in industry and it becomes necessary to take a stand on an issue of this sort, you run the risk of losing for a time your whole means of livelihood. If you are in practice, you only risk the loss of part of it, even if it is your largest audit.

Candour and Frankness Essential

Fourthly and finally, those of us who go into industry have an obligation to pursue the truth every bit as much as those in practice. For purely practical reasons, in presenting information to management, we have to be true and fair in what we say; otherwise, incorrect decisions will be taken, and the business may fail. Moreover, you will never gain the confidence of trade union officials and of staff, unless you are known to be fearless and honest in the presentation of facts.

When it comes to annual accounts, I say quite categorically that we are *not* entitled to deceive the auditor. Those of us in industry and those in private practice are members of the same profession, and are bound by the same standards; candour and frankness are essential, with no holding back. If there are matters of which the treatment in the accounts is doubtful, professional conduct requires that they shall be discussed openly and not covered up in the hope of their not being noticed. This does not mean that we who go into industry are always to be bound by the views of our auditing colleagues. We are entitled to our views as much as they to theirs; although if it comes to it, they possess the ultimate sanction of being able to qualify their report or refuse their signature. There is plenty of room for difference of view; there is no room whatever for concealment or deception between members of the same professional body.

Conclusion

I have tried to give some impression of the change in mental approach to your work which you may have to undergo, when you move from being outside the management of a business to being inside it.

I have also tried to show that when you go into industry and become engaged in management accounting, you are still 'in the profession', and carry with you certain obligations of a professional character.

You are attached primarily to the profession, and the Institute is your 'craft' home. From it you go out to this industry or that, as occasion demands or your choice dictates; and to it you are able to return from time to time, to contribute your experience to the common pool and to draw, from the experience of others, fresh confidence for dealing with the problems that beset you.

WEEKLY NOTES

More New Year Honours

In our last issue it was our privilege to congratulate those members of the profession whose names appeared in the New Year Honours List. We should now like to congratulate also Mr James A. Walker, C.A., of Edinburgh, who becomes a C.B.E., and Mr James Strachan, A.C.W.A., director, Jute Industries Ltd, Dundee, who has been awarded the O.B.E.

Capital Expenditure in Industry

At the public meeting of the Royal Commission on the Taxation of Profits and Income held on November 1st last, the point was made on behalf of the Federation of British Industries that, under the combined pressure of inflation and high taxation, industry was barely able to maintain its real assets. The Commission intimated that it would like to have statistical evidence on this, and the Federation subsequently published a case study on the subject. Further light has now been thrown on it by estimates of industrial capital expenditure in 1950 published by the Board of Trade and based on an inquiry carried out early in 1951. That department conducted the inquiry jointly with the Ministry of Supply, Admiralty, Ministry of Works, Ministry of Food, and Ministry of Fuel and Power, and in collaboration with the Central Statistical Office. The inquiry was similar to one undertaken in 1950, which was directed to estimating capital expenditure in both 1949 and 1950. A sample of establishments was invited to make returns of the amounts charged to capital account during each of those calendar years, and the resulting figures were multiplied by appropriate fractions to give the total for the whole of Great Britain. These figures include the replacement of capital equipment which is dealt with on a renewals basis, replacement of plant, vehicles and buildings destroyed by war, and the full value of assets acquired on hire-purchase. Dwelling-houses, land development charges, legal charges and agents' commissions were excluded. The amount of capital thus expended in 1950 is estimated at £430 million. The estimated number of employees on September 30th, 1950, was 6,807,000, which gives £63 capital expended per employee. The total expenditure for 1949 is estimated at £368 million – how far the increase is due simply to higher prices it is difficult to say. Of the £430 million, £296 million

went in plant and machinery, £36 million in vehicles, and £98 million in new buildings and works. In the same year second-hand purchases of plant and machinery were nearly £11 million and of vehicles £5½ million.

Trend of Stocks

After months of gloomy speculation about the size of industry's working stocks of raw materials there has now followed a mood of greater optimism about the prospect for 1952. Some observers are seeing better days ahead in this respect – with the important proviso that the outlook for steel is far from bright. The trend of industrial production in recent months certainly suggests that the stock position has not always been as bad as it has been painted. Such an opinion finds reinforcement from the much-publicized shortages of sulphur which almost failed to justify the widespread public concern.

The truth is as usual on such occasions somewhere between the extreme views. There have been serious shortages of certain materials at many works but the position has rarely added up to a worth-while generalization except for steel and, at times, of a few key materials.

A cross-section of the position at the end of the third quarter – figures for which are now available – presents an interesting picture. The following table sets out key materials measured against their supply position at the end of the third quarter in 1950.

Noticeably higher	*Lower*	*Same*
Copper	Steel	Pitwood
Softwood	Zinc	Hardwood
Rubber	Lead	Cotton
Sulphur	Wool	Industrial alcohol
Fertilizers	Woodpulp (for paper)	
Paper-making materials		

The position of copper may be anomalous, due to heavy shipments in 1951 just before the cross-section had been taken. In the case of industrial alcohol there was quite a large increase in stocks through the year but they remained lower than at the same time the year previously. The categories are rough and it would take a long table to bring out the shades of meaning between 'higher' and 'lower'. Nevertheless they show that many key materials were easier at the time than in 1950.

The Steel Scheme

A statement was made last week-end amplifying the Government's reasons for introducing a steel allocation scheme next month. The need for some special measures to close the gap between supply and estimated consumption in 1952 – namely 1½ million tons of finished steel – was already known. Last week-end's statement adds one important point of principle to the allocation plan. It is now declared policy to channel steel not only to the defence programme and direct export but also towards machinery and so on fabricated with steel. In other words capital goods are to be moved into export markets (where there is certainly a demand for them) at the expense of domestic users to a greater extent than before. In consequence, steel users with products going mainly into the home market will be those most severely cut.

Provided certain priorities are observed – and it is clear that coal, power, oil and exports as well as defence contracts are to get priority – the broad principle is a good one. But it will not make it any easier to establish a fair and yet water-tight allocation scheme.

Book Publishing Paradox

Last year there were more books published in this country than every before. Such is the finding of the *Bookseller*, which has now issued publishing figures for the trade over last year. There were 18,066 new titles published, thus breaking the previous record, which was set up as long ago as 1937. Reprints and new editions accounted for 4,938, which was a decline on the previous year. There were fewer children's books published last year than in 1950, but the post-war trend of more technical books of one sort and another was maintained. Fiction remained the highest single category, but no records were broken.

The most interesting feature of these statistics – and they are in a sense a paradox – is the fall in the numbers of reprints. In other words, although it was a year of notoriously steep increases in paper and printing costs, the trade as a whole did not take refuge in the most obvious harbour, namely, to live on its back-list and avoid new titles until prices eased off. What does this mean? Is it that this measure will show up more clearly in 1952's figures, since publishing programmes were well advanced when the steepest increases were announced? Or does it mean that, although many large publishers did take refuge to some extent in their back-lists, the increase in technical and similar books was caused by young publishing companies struggling to get through a difficult year with only small back-lists? It was certainly a difficult year for many firms and this is one of those industries where a high level of production does not necessarily mean a high and general level of prosperity among the companies concerned.

Changed Retail price Controls

The announcement last week that the prices of certain utility goods are to be controlled by an upper cash ceiling instead of by percentage margins was swathed in a certain amount of circumlocution in the interests of the present tender constitution of the retail trade, but its meaning is plain enough. The fixing of a maximum cash price means that retailers can average their prices and so lower them to tempt the public back into the shops. Further, the controls on non-utility goods (except for children's clothes and nylons) are also removed.

Two points are raised by the announcement. First, if, as a spokesman of the trade said last week, there

is not likely to be any reduction in prices, why make the change at all? Second, will the public show any alacrity to buy if retailers do average their prices on old and new stock – in other words if they try to charge prices lower than old stock prices would justify, but higher than the levels to which consumer resistance has already driven prices?

There is no royal road to the adjustment of supply and demand. But any administrative changes, such as this one, which make the price barometer a better indication of the true state of the market are to be welcomed.

End of B.E.T.R.O.

The decision of the British Export Trade Research Organization to recommend a voluntary winding-up is not only the end of an organization, it is also the eclipse, for a time at least, of an idea which in the long run must be of importance to British industry. So far as the organization is concerned it might have been hoped that the reorganization of B.E.T.R.O. some time ago might have ensured it a longer lease of life than has been the case.

In recommending the winding-up, B.E.T.R.O. remark that the need for overseas research is 'as yet inadequately appreciated by industry'. The organization was formed on the hypothesis that such research would be appreciated and that industry would be willing to finance an organized attempt to give it a service in this respect. How far the teething troubles of B.E.T.R.O. contributed to the failure to gain the confidence and whole-hearted support of industry, how far it was due to over-conservatism on the part of industry when faced with a new tool and how far to the fact that industry in the export market has been more worried about making goods to meet delivery dates than about selling them will now never be known. But when the buyers' market returns in all its chillness – as it certainly will – the basic idea behind B.E.T.R.O. will come into its own if in another form and under another kind of organization.

E.P.T. and Equity Capital

There is growing concern about the Government's intentions on E.P.T. and the effect of lack of knowledge of the details on the flow of risk capital. The knowledge that E.P.T. is to feature in the Budget – in a manner which has still to be divulged – is to be in the same position as the stockholders at the time of the South Seas Bubble who had an interest in a company the nature of whose business would in due course be revealed.

It is true that debenture offers have fared worse than offers of ordinary capital in recent weeks, but there is little doubt that the certainty of a new but unpredictable imposition on profits is reducing the flow of new issues to something less than a trickle. The chairman of the Charterhouse Investment Trust underlined this problem in a statement which has been issued with the company's accounts this week, and in so doing has ventilated an issue which is clearly troubling the new issue market and which will continue to do so until the matter is cleared up. Meanwhile, the situation is causing an effective brake to be put on the flow of new equity capital, a clumsy and no doubt unintentional device to achieve that end, which should be removed as soon as possible.

FINANCE AND COMMERCE

The heavy gold and dollar drain in the last quarter of last year has re-emphasized the gravity of the economic situation. Until the results of the Commonwealth Finance Ministers' Conference are known, the Government's new economic measures are announced and the Budget presented, the full pattern of the plans to combat the position cannot be appreciated. Until the full plan is known it is difficult to foresee any sound return of confidence to the stock market. If the measures taken are sound, then confidence should be gradually restored. Meanwhile business in stock markets is largely of a professional and speculative character.

What Happened?

'During the past year', states the directors' report of The Birmingham Small Arms Co Ltd, 'the B.S.A. group acquired the whole of the share capital of The Triumph Engineering Co Ltd, manufacturers of the world-famous Triumph motor cycles, which accounts for the increase in investments in subsidiaries on page 9.'

'The consolidated profit and loss account', the report continues, 'includes the trading results of that company for seven months to July 31st, 1951. The profits prior to acquisition', it is added, 'have been transferred to capital reserve.'

At this point, we lost the track of the accounting entries. Page 9 certainly shows an increase from £122,029 to £2,572,029 in 'Investments in subsidiaries whose assets have not been purchased by The Birmingham Small Arms Co Ltd'. But the capital reserves at July 31st, 1951, are just as they were at July 31st, 1950.

The transfer of pre-acquisition profits to capital reserve is so obviously right that we feel rather like the man who forgot to press button 'A' and could not understand what was wrong with the phone.

Capital Reserves

The directors of Bass, Ratcliff & Gretton Ltd, the Burton-on-Trent brewers, have this year regrouped the reserves in the two balance sheets. The general and the property reserves are accordingly now

THE BIRMINGHAM SMALL ARMS COMPANY LIMITED
Consolidated Profit and Loss Account for the year ended July 31st, 1951

July 31st 1950 £			*July, 31st 1951* £	£
1,125,859	TRADING PROFIT of the B.S.A. Co Ltd and its Subsidiaries (*see note below*) after charging:			2,109,922
466,539	Depreciation for the year		529,987	
101,653	Special Provision for Depreciation		81,427	
3,765	Remuneration of Auditors		4,361	
8,369	Directors' Fees	£9,025		
12,000	Directors' Other Emoluments	22,575		
			31,600	
45,074	Debenture Interest (Gross)		43,248	
1,142	Premium on Redemption of Debentures		1,186	
	ADD:			
50,371	Dividends from Trade Investments			72,325
16,115	Miscellaneous Income			2,334
1,192,345				2,184,581
	ADD: EXCEPTIONAL INCOME:			
38,157	Profit on Disposal of Fixed Assets		2,524	
65,625	Profit on Realization of Trade Investment		1,185	
78,414	Interest on War Damage Claims		10	
	Income relating to previous years	£104,846		
	Less Taxation thereon	92,808		
82,156			12,038	
				15,757
1,456,697	TOTAL PROFIT, before Taxation for the Year			2,200,338
	TAXATION ON PROFITS OF THE YEAR:			
237,000	Profits Tax		380,000	
613,000	Income Tax		1,040,000	
				1,420,000
606,697	PROFIT AFTER TAXATION			780,338
	Deduct:			
291	Profit Attributable to Outside Shareholders of a Subsidiary		279	
	Profit Attributable to B.S.A. Co Ltd retained by Subsidiaries:			
	As Capital Reserve	£94,139		
	As Revenue Reserve	5,758		
1,800			99,897	
				100,176
604,606	**Total Net Profit from all sources brought to credit in the year after providing for Taxation**			680,162
271,662	ADD BALANCE BROUGHT FORWARD FROM PREVIOUS YEAR			443,604
876,268	**Available for Allocation**			1,123,766
245,673	General Reserve (including £47,455 for Debenture Stock redeemed)		247,455	
15,000	B.S.A. Educational Fund		3,500	
				250,955
				872,811
	Dividends (less Tax) paid during year:			
	On 5% 'A' Cumulative Preference Stock	£2,666		
	On 6% 'C' Cumulative Preference Stock	5,522		
8,578			8,188	
	Dividend (less Tax) recommended:			
	On 5% 'A' Cumulative Preference Stock	2,666		
	On 6% 'B' Cumulative Preference Stock	5,522		
	On Ordinary Stock at 10%	147,797		
163,413			155,985	
				164,173
£443,604	**Balance carried forward to following year**			£708,638

Note: The Trading Profit of £1,125,859 for the previous year had been reduced by £344,672, resulting from an adjustment in the Stock Valuation basis. Comparison between the Trading Profits should take that adjustment into account.

included with the capital reserves. The board consider this desirable 'so as to reflect more clearly the fact that the actual capital employed in the business of the company and its subsidiaries very considerably exceeds the issued share capital'.

These two reserves are now grouped with share premium account and E.P.T. post-war refund suspense account as capital. Under the revenue head is the contingency reserve and the balance of the profit and loss account.

This transfer of reserves from the revenue to the capital section brings forward quite an important point in balance sheet construction. When businesses are built up out of income, profits thus retained usually continue under the revenue heading until lifted to capital by a capitalizing operation. This method underlines the capital nature of the reserves.

A Day Out

It is extraordinary how the turn of the year seems to bring its little crop of minor errors in company accounts. This time the tendency seems to be connected with the almanac.

Below the notice of the annual meeting with the accounts of Joshua Hoyle & Sons Ltd is stuck an erratum which points out that 'In the notice of meeting, Wednesday, January 10th, 1952, should read THURSDAY, January 10th, 1952'. In the case of Bowmans Chemicals Ltd, pen and ink has been used to make January 9th, the date of the meeting, a Wednesday instead of a Tuesday.

These, in essence, are simple matters which, however, if not corrected in time could invalidate the notice of the meeting and create a very bothersome situation.

The Tyzacks

No wonder the name of Tyzack seemed synonymous with tools when we wrote in our issue of November 24th about the accounts of W. Tyzack, Sons & Turner Ltd. Mr Burton Buckroyd, secretary of Joseph Tyzack & Son Ltd, points out that 'there are other Tyzacks in Sheffield with a world-wide reputation for saws and other edge tools generally.

'My company', he says, 'has been in business since 1837 and the celebrated Three-Leg mark has a world-wide reputation.'

To Joseph and any other Tyzacks in Sheffield, we offer our congratulations for contributing to Sheffield's reputation for tools.

Money Market

Applications for Treasury bills totalled £212,450,000 on January 4th. Bidding at £99 15*s* 2*d*, the market obtained 61 per cent of requirements. The average rate was 19*s* 3·39*d* per cent. This week's offer is maintained at £150 million and there is no call against Treasury deposit receipts. The total amount of Treasury deposit receipts outstanding is now less than £90 million.

THE BIRMINGHAM SMALL ARMS COMPANY LIMITED

Balance Sheet July 31st, 1951

July 31st, 1950 £	July 31st, 1950 £		July 31st, 1951 Shares Authorized £	July 31st, 1951 Issued and Converted into Stock £	July 31st, 1951 £
		I. Capital			
203,150		5% 'A' Cumulative Preference Shares	203,150	203,150	
350,580		6% 'B' Cumulative Preference Shares	500,000	350,580	
2,815,172	3,368,902	Ordinary Shares	4,296,850	2,815,172	3,368,902
			£5,000,000		
		II. Capital Reserves			
732,856		E.P.T. Post-War Refund (Provisional) ..		732,856	
650,896	1,383,752	General Capital Reserve		650,896	1,383,752
		III. Revenue Reserves			
1,489,632		General Reserve		1,737,087	
1,100,000		Reserve for replacement of Plant ..		1,100,000	
500,000		Stock Reserve		500,000	
3,089,632				3,337,087	
443,604	3,533,236	Balance of Profits carried forward ..		708,638	4,045,725
	8,285,890				8,798,379
		IV. Debenture Stock	Authorized	Outstanding	
1,576,811		4% Mortgage Debenture Stock redeemable at 102½	2,000,000	1,576,811	
466,009	1,110,802	*Less* Amount redeemed		512,309	1,064,502
		V. Deferred Liabilities			
539,505 (1951/52)		Provision for Income Tax, 1952/53 ..		826,751	
344,250		Provision for Deferred Repairs less expenditure incurred		189,771	
175,000		Provision for augmented Staff Pension Scheme		175,000	
15,000	1,073,755	B.S.A. Educational Fund		15,000	1,206,522
		VI. Current Liabilities			
2,745,975		Creditors and Accrued Charges ..		5,278,981	
—		Bank Overdraft		541,255	
33,591		Amount owing to Subsidiaries ..		913,765	
1,620,940		Provision for Taxation		2,054,250	
163,413	4,563,919	Proposed Dividends		155,985	8,944,236
	£15,034,366				£20,013,639

July 31st, 1950 £	July 31st, 1950 £		July 31st, 1951 As valued in 1919 or at Cost £	July 31st, 1951 Depreciation £	July 31st, 1951 Net Value £
		I. Fixed Assets			
	1,484,988	Freehold Land and Buildings	2,956,631	1,294,370	1,662,261
	87,358	Leasehold Land and Buildings	108,547	25,826	82,721
	2,397,672	Fixed and Loose Plant, Machinery, Fixtures, Fittings, etc.	7,706,880	5,296,585	2,410,295
	1	Special Tools, Jigs, Dies, etc. (current replacements charged to Revenue)	1		1
	3,970,019		10,772,059	6,616,781	4,155,278
		(July 31st, 1950	10,109,959	6,139,940)	
	122,029	**II. Investment in Subsidiaries whose Assets have not been purchased by The Birmingham Small Arms Co Ltd** ..			2,572,029
	21,577	**III. Trade Investments**			21,390
		IV. Current Assets			
6,954,617		Stock		7,932,779	
3,121,582		Debtors less provision for Doubtful Debts		5,332,163	
292,000		Tax Reserve Certificates		—	
552,542	10,920,741	Cash		—	13,264,942
	£15,034,366				£20,013,639

Note:

The amount of Outstanding Contracts for Capital Expenditure is estimated at £820,000.

Signed on behalf of the Board,

BERNARD DOCKER,
PATRICK HANNON, } *Directors.*

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Income Tax Assessment

SIR,– I would welcome the opinions of readers on the following as to what is the position in income-tax law.

A farmer client brought to me for my perusal two notices of assessment for 1951–52 – both for the same year. They were from two different tax districts. One I had already agreed, and the second was an estimated assessment against which no notice of appeal had been lodged.

It would seem that Section 24, Finance Act, 1923, will apply in reverse!

Yours faithfully,

Evesham, Worcs. WILFRED TULLETT.

Estate Duty: Joint Bank Account

SIR, – In reply to Mr F. Alam's query in your issue of December 22nd, 1951, it appears that, since either party has unrestricted rights of operating the account, on the death of one party the balance will devolve by survivorship upon the other, and attract estate duty accordingly.

The survivor might, however, claim to apply the rule in *Clayton's* case in order to apportion the balance and pay estate duty only upon the proportion thus found to be appertaining to the deceased.

The banker would be under a duty to refuse payment of any cheques signed by the deceased but not presented prior to the date of death, but could not restrict the rights of the survivor to operate the account.

Yours faithfully,

London, N10. M. BARRADELL, A.C.A.

SIR, – With reference to the question by Mr F. Alam in your issue dated December 22nd, 1951, concerning joint account holders, I presume that whilst either of them may have been at liberty to withdraw up to any amount there was no other contrary expression in the will of the deceased.

The survivor is entitled to the account, subject to notice of death and production of the probate to the bank by the personal representatives, provided the moneys are not required to make up other liabilities.

None the less, money thus standing at the date of death is 'estate in the hands of the deceased's representatives', and should wholly come into the estate duty account.

Pending winding-up of the deceased's affairs or until receipt of specific directions from the executors it should be the banker's duty to regard the account as inoperative in case it turns out that the indebtedness of the estate causes the moneys to be otherwise required, whilst on the other hand the bank stands in a somewhat fiduciary position to the surviving joint member.

In a case where the drawing right of either of the joint account holders is fixed at a particular sum, the duty relative to the account could be apportioned accordingly as between the estate and the surviving joint member.

Yours faithfully,

WILLIAM L. NEWTON, A.COMM.A.

East Molesey, Surrey.

Restriction of Overdrafts and Advances to Industry

SIR, – In your issue of December 29th last, Mr Henry Lucas writes that contraction of ordinary banking credit 'can lead only to a slowing down in industry . . . unemployment . . . and over-production'. The dogmatism is startling, but he is entitled to his opinion. I do however challenge his concluding remark. In applying their economic theory, he says, economic experts leave a trail of social damage for accountants to clear up. Has he heard at all of the suspicion that accounting conventions increase the amplitude of the swings of the trade cycle? You naughty accountants, you have a mess to clear up and you only make it worse!

Yours faithfully,

Dublin. A. PAKENHAM-WALSH.

The Inspector of Taxes Interrogates

SIR, – I refer to my interview with the Inspector of Taxes, reported by Mr Wilfred Tullett, F.S.A.A. (*The Accountant*, December 15th, 1951), and should like to ask the following final question:

'As the fiscal year runs from April 6th to April 5th, could I not get married on April 5th and still be entitled to a full married man's allowance, and also have obtained a day's extra freedom as a single man?'

Yours faithfully,

'ANDREW MACVERYCAREFUL.'

[Mr Wilfred Tullett writes: Does Andrew belong to the McDither clan? He is, of course, quite correct, but what will he do if he dithers until April 5th of *next* year when April 5th falls on a Sunday!]

Controlling Interest

SIR, – A. has a very good business worth £100,000. He has a wife and a son and proposes floating his business as a private limited company. He proposes that one-third of the shares in the company shall be retained by himself, a third shall be given to his wife, and one-third to his son, so that A. would have to live five years from the date of the gift to exempt the aggregation of each of these gifts with his private estate for the purpose of estate duty, and his one-third share in the business would be fixed with duty at the rate applicable to the whole business or whole estate if he had other estate. Who would pay the duty on the one-third shares given to the wife and the

son and at what rate would these gifts be payable?

Suppose the gifts were not worth the amount of liability for estate duty, presumably the gifts themselves could be claimed on to the full value thereof and what remedy have the estate duty authorities against the testator's estate or the donees?

At the present time A. is heavily indebted to his bankers, which overdraft he has secured by the deposit of deeds on private property owned by him.

It is desired to ascertain whether in view of the fact that the proposed company's bank overdraft will have to be similarly secured, whether the amount of such overdraft will be regarded as the vendor's capital in the event of his death after five years, and would be taken into account in ascertaining whether the vendor had a controlling interest in the company or not.

Yours faithfully,

X.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

Wilkie *v.* C.I.R.

In the High Court of Justice (Chancery Division)
December 12th, 1951
(Before Mr Justice DONOVAN)

Income-tax – Residence for six months in a fiscal year – Appellant in United Kingdom from June 2nd to December 2nd – Whether he actually resided for six months – Income Tax Act, 1842, *Section* 39 – *Interpretation Act,* 1889, *Section* 3 – *Income Tax Act,* 1918, *Schedule D, Miscellaneous Rule* 2.

The appellant was resident in India, and in 1947, after an absence of seven years, he came home on leave, and arrived in the United Kingdom on June 2nd, 1947, at about 2 p.m. He intended to leave for India in November of the same year, but an operation and the cancellation by British Overseas Airways Corporation of a passage he had booked, delayed his departure, and he did not leave until December 2nd, 1947, at about 10 a.m. It was admitted that the appellant was in the United Kingdom for a temporary purpose, and not with any view or intent of establishing his residence here.

It was contended for the Revenue that the appellant actually resided in the United Kingdom for six months in 1947–48, and that he was accordingly chargeable to income-tax and sur-tax for that year, and to the special contribution, by virtue of Miscellaneous Rule 2 of Schedule D to the Income Tax Act, 1918. The Crown argued (1) that in law, fractions of a day count as a whole day; (2) that the word 'months' in Miscellaneous Rule 2 refers to lunar months. For the appellant it was contended (1) that as he was born in Scotland, the rule of Scots law should be applied, and the day of his arrival should be excluded in reckoning the six months; (2) that as his stay between November and December 2nd was an enforced one, he was not actually resident here during that period; (3) that in terms of hours he spent fewer hours in the United Kingdom in 1947–48 than there are hours in six months; (4) that if it is a rule that fractions of a day count as a whole day, he was outside the United Kingdom for more than six months during 1947–48.

The Special Commissioners decided in favour of the Crown.

Held, that it was necessary to determine whether the appellant was actually resident for six months in 1947–48; that, in making this inquiry, a part of a day during which he was non-resident could be treated as a whole day in which he was non-resident; and that, therefore, the appellant was not actually resident in the United Kingdom for the six months required by Miscellaneous Rule 2.

Fielding & Son (Werneth) Ltd *v.* Green

In the High Court of Justice (Chancery Division)
December 6th, 1951
(Before Mr Justice UPJOHN)

Income-tax – Subsidiary company – Payment of excess profits tax to principal company – Agreement as to amount payable – Construction of agreement – Deduction of amount payable – Finance Act, 1940, *Section* 28, *Schedule V, Part IV, paragraphs* 8, 9 – *Finance Act,* 1941, *Section* 28 – *Finance Act,* 1942, *Section* 37 – *Finance (No. 2) Act,* 1945, *Sections* 38, 43.

The appellant was a subsidiary company in a group, and in 1946 it was considered to be liable to pay to the principal company £74,112, pursuant to paragraph 8 (2) of Part IV of Schedule V to the Finance Act, 1940, for excess profits tax which related to the trading of the appellant, but which was assessed on the principal company. The appellant was entitled to receive from the principal company a post-war refund of excess profits tax of £16,316. Its undischarged liability to excess profits tax was later found to be £158,575.

In 1946 negotiations took place for the sale of the shares held by the principal company in the appellant, and in the course of these negotiations it was arranged that the appellant should pay to the principal company the sum of £57,796 in full settlement of the liability of the appellant to the principal company for excess profits tax, namely, £74,112, and that the principal company should be entitled to retain the post-war refund of excess profits tax of £16,316.

It was contended for the appellant that on the facts of the case the principal company had made a demand, under paragraph 8 (2) aforesaid, on the appellant for £74,112; that the £57,796 was merely the balance of that sum after the set-off of the £16,316 of post-war refunds; and that, therefore, the sum deductible by the appellant in computing its profit for income-tax purposes, under paragraph 9 (4) of Part IV of

Schedule V to the Finance Act, 1940, was £74,112. The General Commissioners decided that the sum demanded under paragraph 9 (4) was the £57,796.

Held, that the General Commissioners' decision was correct.

Green *v.* Cravens Railway Carriage and Wagon Co Ltd

In the High Court of Justice (Chancery Division)

December 14th, 1951

(Before Mr Justice DONOVAN)

Income-tax – Staff assurance scheme – Additional premiums for certain employees – Lump sum paid to commute these premiums – Whether that sum deductible in computing employer's profit – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*f*).

In 1944 the company established a staff assurance scheme for the purpose of providing a sum for every employee on his death or retirement. A policy was taken out by the company with an assurance company for the purpose of providing the requisite amounts at the proper times, and the company paid all the premiums. The assurance company was liable to pay the sums to the company, and the latter received them in trust for the employees in question.

In respect of some of its employees the company paid additional premiums amounting to £1,240 a year, and these premiums, as well as the others paid by the company, were allowed as deductions for tax purposes. In 1946 the company paid to the assurance company £9,320 in commutation of its liability to pay the additional premiums, and this sum was disallowed by the Inland Revenue as a deduction in computing the company's profit for purposes of income-tax. The Special Commissioners decided that the company did not acquire any new asset by commuting the additional premiums, and they allowed the company's appeal.

Held, that the Special Commissioners' decision was correct.

Faulconbridge *v.* Thomas Pinkney & Sons Ltd

In the High Court of Justice (Chancery Division)

December 10th, 1951

(Before Mr Justice DONOVAN)

Income-tax – Sale of shares in company – Retirement of sellers from directorships – Provision for purchasers to pay to sellers percentage of commissions received by company – Subsequent agreement between same parties for payment of commission by company – Whether sums thus paid deductible in company's computations – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*a*).

In 1945 the principal shareholders in the respondent company wished to retire, and it was agreed that they should sell their shares to two other shareholders at £2 a share. It was also arranged that the sellers should resign their directorships in the company, and in consideration therefore the purchasers jointly and severally agreed that they would make arrangements to pay to the sellers 50 per cent of certain commissions received by the company in excess of £2,250 in each of the years ended October 31st, 1946, to October 31st, 1950. By a supplementary agreement in 1947, between the same parties, but to which the company was not a party, it was agreed that the amounts of commission were to be paid by the company.

It was contended for the company (*a*) that the sums in question were paid by the company as remuneration for services rendered to it by the sellers in maintaining and developing business contacts; (*b*) that the company agreed, in return for the sellers' services, to assume their obligations towards the purchasers, and that in either event the sums in question were proper deductions in computing the company's liability to income-tax. The General Commissioners decided in the company's favour.

Held, that there was no evidence that the company had agreed either to remunerate the sellers for their services or to assume their liabilities towards the purchasers, and that, therefore, the sums in question were not deductible for tax purposes.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, January 2nd, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs Graham Adam, M.C., H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, J. S. Mackenzie, K. A. E. Moore, P. Morgan-Jones, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepperd, M.B.E., K. G. Shuttleworth, B. Smallpeice, E. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, T. Walton, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T. Wilde, with the Secretary and an Assistant Secretary.

Appointment while Serving under Articles

One application under bye-law 57 from an articled clerk for permission to accept an appointment while serving under articles was acceded to, and one application was not acceded to.

Change of Name

It was resolved that the following changes of names be made in the Institute records:

Percy Knowles, A.C.A., to Peter William Percy Knowles.
Cyril Figov, A.C.A., to Cyril Fenton.
Hyman Oscar Raphael, A.C.A., to Howard Oscar Raphael.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following thirty-seven associates who have commenced to practise:

Bell, George Edward; 1951, A.C.A.; 42 Falkland Road, Hornsey, London, N8.
Birch, Harold; 1948, A.C.A.; (Birch, Littlemore & Co), 7 Pall Mall, Manchester, 2.
Boulby, William Angus Fred; 1950, A.C.A.; (Slaney, Kennewell, Pick & Co), Bank Chambers, The Square, and 33 Churchgate, Retford.
Burton, Rex Norwood; 1951, A.C.A.; 108 Bury New Road, Prestwich, Manchester.
Courtney, Douglas James; 1951, A.C.A.; (William Price & Co), 7 St Stephen's Street, Bristol, 1.
Crossley, William Oliver; 1951, A.C.A.; (G. H. Murray & Co), Hollins Chambers, 64A Bridge Street, Manchester, 3.
Cullen, Richard; 1934, A.C.A.; (Newill & Co), National Chambers, 4 Horsefair Street, Leicester.
Daniel, Charles Michael; 1945, A.C.A.; (H. S. Baker & Co), Bletchley Road, Bletchley, and at London.
Davie, John Norris; 1951, A.C.A.; (W. Y. Thomson & Co), 16–18 Clapham Junction Approach, London, SW11, and at Freshwater, Isle of Wight.
Davison, James Maurice Joseph; 1951, A.C.A.; (Strachan & Co), 57 Grainger Street, Newcastle upon Tyne, 1.
Dennington, John; 1951, A.C.A.; (Hartley, Keen & Co), 77–79 High Street, Southend-on-Sea.
Epps, Max Isaac, B.COM.; 1949, A.C.A.; 1 Crosshall Street, Liverpool, 1.
Field, Norman; 1948, A.C.A.; (N. Field & Co), 392 Edgware Road, London, W2.
Finch, Cecil John; 1951, A.C.A.; (Mercer & Hole), Peahen Chambers, 20 London Road, St Albans.
Godkin, John Richard Hayward; 1951, A.C.A.; (*Herbert Godkin & Co), 53 Baxter Gate, Loughborough, and at Leicester.
Groves, John Howard; 1947, A.C.A.; (*C. Percy Barrowcliff & Co), 55–57 Albert Road, Middlesbrough, and at Leeds, and Newcastle upon Tyne.
Guest, Peter Neil; 1951, A.C.A.; (*Robert Taylor & Co), 7 Queen Street, Oldham.
Hall, John Anthony Kenneth; 1950, A.C.A.; (Mercer & Hole), Peahen Chambers, 20 London Road, St Albans.
Jennings, John David; 1951, A.C.A.; (J. D. Jennings & Co), Pinners' Hall, Austin Friars, London, EC2, and at Crawley.
Jones, Peter David; 1950, A.C.A.; 41 Prentis Road, Streatham, London, SW16.
Kinnair, Peter Lock; 1951, A.C.A.; 16 Bridge Street, Blyth, Northumberland.
Lethbridge, Reginald John George; 1945, A.C.A.; (*Portley & Lethbridge), Guildhall Chambers, High Street, Exeter.
Littlemore, Peter East; 1951, A.C.A.; (Birch, Littlemore & Co), 7 Pall Mall, Manchester, 2.
McCranor, Henry James; 1951, A.C.A.; 'Merionfa', Brandon Road, Bretford, Rugby.
Morrell, John; 1950, A.C.A.; (*Stephenson, Smart & Co), 26 King Street, King's Lynn, and at Hunstanton.
Owen, Lewis; 1940, A.C.A.; 'Thorshavn', Uffmoor Lane, Halesowen, Birmingham.
Pearson, Roy; 1951, A.C.A.; (William J. Campbell), 49A Whitefriargate, Hull.
Sandford, Henry Bernard Chamberlain; 1950, A.C.A.; (Scurr & Gilroy), 70 High Street, Alton, Hants; also at Aldershot, (C. H. B. Gilroy & Co).
Sansom, Douglas; 1951, A.C.A.; 43 Belvedere Road, Upper Norwood, London, SE19.
Sergeant, Alan Frederick; 1949, A.C.A.; (Alexander, Sagar & Co), 31 Clarendon Road, Leeds, 2.
Spofforth, Michael Gordon; 1951, A.C.A.; (Spofforth & Prince), Clifford's Inn, Fleet Street, London, EC4.
Stretton, Derek Bernard; 1951, A.C.A.; (W. Y. Thomson & Co), 16–18 Clapham Junction Approach, London, SW11, and at Freshwater, Isle of Wight.
Taylor, William Robert; 1948, A.C.A.; High Farm, Arkholme, near Carnforth, Lancashire.
Varey, Stuart; 1950, A.C.A.; 3 Vale View, St Bees, Cumberland.
Vincent, Dennis Richard; 1949, A.C.A.; (Eastoe & Vincent), Parade House, Liskeard, Cornwall.
Wagstaff, Richard Kenneth; 1934, A.C.A.; 18 Oakley Avenue, Beddington, Croydon, Surrey.
Wheeler, Bernard Frederick; 1950, A.C.A.; 115 Sutton Court, Chiswick, Middlesex.

(2) That twenty associates be elected to fellowship under clause 6 of the Supplemental Charter (Bye-law 31).

(3) That five associates be elected to fellowship under clauses 6 and 31 of the Supplemental Charter (Bye-law 31).

(4) That one applicant be admitted as associate under clause 9 of the Supplemental Charter (Bye-law 36).

A list of those who complete their fellowship or membership before January 15th will appear in *The Accountant* of January 19th.

Vice-Chairman of Committee

The appointment of Mr D. V. House as vice-chairman of the Investigation Committee in place of Mr W. H. Lawson who, on acceptance of the chairmanship of the Parliamentary and Law Committee, has resigned from the Investigation Committee, was reported.

Registration of Articles

The Secretary reported that 81 articles of clerkship were registered during the month of December, making a total of 1,380 for the year 1951, as compared with 1,450 for the year 1950.

Resignations

The Secretary reported the resignation of:

Mr Roger Ernest Howorth, A.C.A., Norwich.
" Gerald Arthur Meek, F.C.A., Esher.
" John Richard Thomas, F.C.A., London.

The late Henry Fosbrooke Holloway, F.C.A.

The Council received with very great regret the Secretary's report of the death of Mr Henry Fosbrooke Holloway, F.C.A., Nottingham, a member of the Council from 1942 to 1950.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr John Henry Alexander, F.C.A., Leeds.
„ Edward Allbeury, A.C.A., Bromley.
„ Ernest Edward Bland, A.C.A., London.
„ Cyril Charles Clarke, F.C.A., Whetstone.
„ Percy Sidlow Crowther, A.C.A., Newport, Shropshire.
Mr Frederick Fletcher, A.C.A., Hale.
„ Gilbert Goodall, A.C.A., Sleaford.
„ Alfred John Hayward, F.C.A., Nottingham.
„ Harry Montague Mann, A.C.A., Southampton.
„ Walter Smirk, A.C.A., Preston.
„ Samuel Sutcliffe, F.C.A., Halifax.
„ John Henry Whiting, F.C.A., London.
„ Norman Ward Wild, M.B.E., F.C.A., London.

NOTES AND NOTICES

Personal

MESSRS TRIBE, CLARKE, PAINTER, DARTON & CO, Chartered Accountants, of 43–44 Broad Street Avenue, Blomfield Street, London, EC2, announce that Mr GEORGE W. M. PHILLIPS, A.C.A., who has been associated with the firm for some years, was admitted into partnership on January 1st, 1952.

MESSRS THOMAS BRITTAIN & CO, Chartered Accountants, of 4 Waterloo Street, Birmingham, 2, announce that as from January 1st, 1952, Mr JOHN W. POWELL, A.C.A., who has been a senior member of their staff for a number of years, has been taken into partnership. The name of the firm will remain unchanged.

MESSRS MITCHELL & BUNTING, Chartered Accountants, of 27 Lord Street, Liverpool, 2, announce that their senior partner, Mr B. O. BUNTING, F.C.A., retired from the partnership on December 31st, 1951, after an association of fifty years. The remaining partners, Mr H. W. BURRELL, F.C.A., and Mr A. JONES, A.C.A., A.S.A.A., will continue the practice under the same name.

MR ARTHUR FITZGERALD ROUNTREE, O.B.E., J.P., F.C.A., and Mr LIONEL DEAKIN HARRISON, A.C.A., practising as chartered accountants and estate agents under the firm name of WM. WRIGLEY & SON, at 18 Clegg Street, Oldham, Lancs, announce that they have taken into partnership as from January 1st, 1952, Mr JOHN TALBOT, A.C.A. The practice will continue to be carried on under the name of WM. WRIGLEY & SON, at the same address.

MESSRS DEAKIN HALE, REID & CO, Chartered Accountants, of 115–119 Moorgate, London, EC2, announce that Mr J. A. DEAKIN HALE has now retired from the firm. The practice will be carried on by the remaining partner, Mr H. T. C. REID, under the same name as formerly.

MESSRS HERBERT HILL & CO, Chartered Accountants, of Salisbury House, London Wall, London, EC2, and 18a High Street, Marlborough, Wiltshire, announce that they have admitted into partnership of their Marlborough practice, Mr PETER HUGH HININGS, A.C.A., who served his articles with the firm and has since been managing clerk at the Marlborough office.

MESSRS MCCORMICK & SHAH, formerly of 59 St Martins Lane, London, WC2, announce the change of their address to 130 Crawford Street, Baker Street, London, W1.

MESSRS ANDREAE & RIDDLE, Chartered Accountants, announce that the practice hitherto carried on in the Bahamas by Mr P. W. ANDREAE, F.C.A., and Mr E. R. FINGLAND, A.C.A., will henceforth be known as ANDREAE & FINGLAND. The London practice will remain as ANDREAE & RIDDLE (partners Mr A. B. RIDDLE, A.C.A., and Mr G. H. MILLER, A.C.A.) and the two firms will continue to work in association.

MESSRS CARMICHAEL WILSON, FOX & CO, Certified Accountants and Auditors, of Pearl Assurance Buildings, 60 Hertford Street, Coventry, announce that, as from January 1st, 1952, Mr H. G. C. WILSON, F.A.C.C.A., A.C.I.S., has retired from the practice which will, from that date, be carried on by Mr CYRIL FOX, F.A.C.C.A., F.B.I., under the style of CYRIL FOX & CO.

MESSRS BRISTOW & CO, Chartered Accountants, of 68½ Upper Thames Street, EC4, announce that as from January 1st, 1952, they have taken into partnership Mr FREDERICK H. PLEDGE, A.C.A. The style of the firm will remain unchanged, and the practice will be continued from the same address.

MESSRS J. H. CHAMPNESS, CORDEROY, BEESLY & CO, Chartered Accountants, of 10 St Swithin's Lane, London, EC4, announce that they have admitted into partnership as from January 1st, 1952, Mr PHILIP HARVEY CHAMPNESS, M.A.(CANTAB.), A.C.A., the son of Mr CLEMENT MAURICE CHAMPNESS, F.C.A., and grandson of the founder of the firm. The name of the firm will remain unchanged.

MESSRS HARRY M. BRAND & CO, Certified Accountants, of 83 Gower Street, London, WC1, and 21 Park Street, Chatteris, Cambs, announce that as from January 1st, 1952, they have admitted into partnership Mr ANTHONY GRAHAM BRAND, A.A.C.C.A., son of the senior partner and founder. The name of the firm remains unchanged.

MESSRS T. G. SHUTTLEWORTH & SON, and HADFIELD, RIDDELL & CO, Chartered Accountants, of 68 Queen Street, Sheffield, 1, announce that as from January 1st, 1952, Mr F. J. A. DUNN, D.S.C., A.C.A., who has been a member of their staff for some years has been admitted into partnership. The style of the firm remains unchanged.

Professional Notes

Mr J. L. Warnock, C.A., has been appointed, as from January 1st, 1952, financial director of Hills (West Bromwich) Ltd.

Mr S. John Pears, F.C.A., a member of the Council of The Institute of Chartered Accountants in England

and Wales, has been appointed a member of the reconstituted board of directors of Festival Gardens Ltd.

The Expert Tool & Case Hardening Co Ltd announce that Mr Bernard C. Gotelee, F.C.A., has been appointed joint managing director of the company.

Sir Edgar Sylvester, K.B.E., F.C.A., a partner in the firm of Barton, Mayhew & Co from 1920–34, has retired from the chairmanship of the Gas Council and from business life.

Brigadier R. Ashton Hamlyn, O.B.E., F.C.A., a partner in the firm of Binder, Hamlyn & Co, Chartered Accountants, has been elected chairman of Gordon Hotels Ltd.

Mr Ian Macfarlane, B.L., C.A., has been appointed business manager of the *Gloucestershire Echo* and *Chronicle*.

Mr S. J. Birkett, F.S.A.A., principal in the firm of Birkett, Boughey & Co, London, became a director of Flexile Metal Co Ltd on December 20th, 1951.

Mr G. H. Carbutt, M.A., F.C.A., a partner in the firm of Brown, Fleming and Murray, of London, has been elected a director of The British Steamship Investment Trust Ltd.

Obituary

Harold Percy Carter, F.C.A.

We have learned with regret of the death at the age of 65 of Mr Harold Percy Carter, F.C.A., senior partner in the firm of Harold Carter, Son & Co, Chartered Accountants, of London, Bognor Regis and Staines.

Admitted an Associate of the Institute in 1910, Mr Carter was elected a Fellow in 1919. He was a Liveryman of the City of London and was chairman of South-Eastern and Counties Property.

A former captain of Shirley Park Golf Club, Surrey, Mr Carter was also a member of Shirley Park Bowling Club.

Mortimer Lancaster, F.C.A.

It is with regret that we record the death on January 2nd, at the age of 84, of Mr Mortimer Lancaster, F.C.A.

Mr Lancaster entered articles in 1885 and was admitted an Associate of the Institute in 1890. Two years later he entered into partnership with Mr T. Fred Thorne to found the firm of Thorne, Lancaster & Co, Chartered Accountants, of London. He was elected a Fellow of the Institute in 1908, and was the senior partner of the firm from 1893 until 1944 when he retired, having completed more than fifty years' practice in the City of London.

The Institute of Chartered Accountants of Scotland

Official Directory, 1951

The first year book of Scottish chartered accountants since the amalgamation of the three Scottish bodies as The Institute of Chartered Accountants of Scotland was published recently.

From this standpoint, therefore, it is to be regarded as a new work of reference; moreover, while in general appearance it is not greatly dissimilar from the combined directory of the three bodies of former years, certain necessary refinements and improvements have bestowed upon its pages a 'new look'. But the familiar maroon binding ensures it a welcome as an old and valued friend.

As is to be expected members' names are set out in both alphabetical and geographical lists, and there is a comprehensive 'summary of list of members'. The amalgamation has, of course, rendered obsolete much of the information appertaining to the three former bodies which was given in previous directories, but in its place there is some general information of the Institute. A link with the past is, however, maintained, by the noting of 'past office-bearers' of each of the former bodies.

We quote from the directory on the subject of membership:

> 'The members of the Institute at May 31st, 1951, numbered 5,130 of whom 1,312 were in public practice on their own account or in partnership. The geographical distribution was 2,614 in Scotland, 1,620 in the United Kingdom other than Scotland, and 896 abroad.'

Future of Company Accounts

Prize Competition

The Institute of Chartered Accountants of Scotland has announced that it is offering a first prize of 250 guineas in an essay competition in which papers are invited on the subject of 'The future of company accounts'. There is also to be a second prize of 100 guineas and three awards of ten guineas. The prizes have been subscribed by 'some of the leading commercial and industrial undertakings in Scotland'.

It is stated that the object of papers should be to 'produce proposals which will be of practical value' in the preparation of profit and loss accounts and balance sheets of industrial concerns, and should reflect consideration of the 'accountancy, financial and general economic and social aspects' of present-day problems arising from the fluctuations in sterling, the valuation of assets, taxation, oversea trade involving local currencies, and the accurate measure-

ment of capital employed. Papers will be judged from the standpoint of the contributions which may be made towards the solution, rather than to the analysis, of the present situation and its difficulties.

Features of interest of the competition are that papers may be of any length, and that entry is entirely unrestricted; any individual, male or female, of any nationality, without regard to qualifications, profession or employment, and resident anywhere in the world may submit a paper provided it is in English.

The Council of the Institute hopes that the papers entered will be of assistance when consideration is given to the formulation of general recommendations on accountancy practice.

An official announcement appears on another page, and full particulars of the competition may be obtained from The Secretary, The Institute of Chartered Accountants of Scotland, 27 Queen Street, Edinburgh 2. The closing date for entries is May 31st, 1952.

The Institute of Chartered Accountants in Ireland

NOVEMBER 1951 EXAMINATION RESULTS

The results of the November 1951 examinations of The Institute of Chartered Accountants in Ireland have been announced as follows:

FINAL

Passed: Norman Alexander Agnew, Ballyclare, Co. Antrim; William Anthony Alexander, Dublin; Donald Gerard Michael Beddy, Glenageary, Co. Dublin; Desmond Geddes Bendle, London; David Alan Bowles, Dublin (equal 3rd place); Daniel Francis Bradley, Dublin; John Purvis Heys Bruce, Belfast (1st place, *Arthur H. Muir* Memorial Prize); Patrick Joseph Anthony Byrne, Dublin; William Laurence Cassidy, Dublin; Joseph Richard Connell, Dublin; Maurice Pius Corrigan, Dublin; Vincent Conor Joseph Crowley, Dublin; Edward Frederick Fitzsimons, Dublin; Philip Noel Flaherty, Castledermot, Co. Kildare; John Healy, Dublin; Ronald Weir Jess, Lisburn, Co. Antrim; Matthew Cyril Keane, Booterstown, Co. Dublin (equal 3rd place); Patrick Joseph Kearns, Elphin, Co. Roscommon; Martin Joseph Kelly, Longford; George Maxwell Larmour, Bangor, Co. Down; Edward Johnston Leathem, Belfast; Robert Beattie Logan, Belfast (2nd place); John Francis McDermott, Dublin; Desmond Michael McDunphy, Dublin; John Gerard McMahon, Dublin; Richard George Mallet, Dun Laoghaire; Cormac James O'Rourke, Dublin; Thomas Ryan, Doon, Co. Limerick; Desmond F. Wallis, Bristol; Brian Patrick Whitty, Dublin; Franz Carl Walter Winkelmann, Dublin.

50 *candidates failed to satisfy the examiners.*

INTERMEDIATE

Passed: John Geddes Carson, Ballymena; Joseph Charleton, Dublin; Gabriel Thomas Conlon, Belfast; Michael Xavier Patrick Curran, Belfast; Brian Patrick Deignan, Dublin; William Desmond Dowie, Belfast; John Brian Doyle, Dublin (3rd place); Patrick Bernard Joseph Doyle, Dun Laoghaire, Co. Dublin; Cuthbert Joseph Austin Fitzpatrick, Newry (2nd place); Oliver Michael Freaney, Dublin; Edward James Hayes, Dublin; Joseph Anthony Aloysius Kelly, Maynooth, Co. Kildare; Robert McAlister, Glenavy, Co. Antrim (1st place, *John Mackie* Memorial Prize); John Henry McCausland, Belfast; Edward Gerald McEvoy, Dublin; John McKeown, Milford, Co. Armagh; Samuel James McLoughlin, Belfast; Samuel Crawford McRoberts, Muckamore, Co. Antrim; Brendan Henry Nichol, Dublin; James Edward O'Byrne, Blackrock, Co. Dublin; Francis Joseph O'Duffy, Castleblaney, Co. Monaghan; Donald Henry Poole, Skibbereen, Co. Cork; Kenneth Joseph Rumball, Malahide, Co. Dublin; Maurice Tempany, Dublin; Desmond Edwin Turvey, Dublin.

34 *candidates failed to satisfy the examiners.*

PRELIMINARY

Passed: Norman Hilary Caters, Belfast; Ronald Leslie Houston, Warrenpoint, Co. Down; Richard Loftus Williams, Limerick.

10 *candidates failed to satisfy the examiners.*

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JANUARY 13TH, 1877

Excerpt from an article entitled:

The True View of Bankruptcy

If all traders were so desperately cautious that no one ever failed, it might be safely predicted that but very few would ever enjoy a great success. A servile, cheese-paring race might never produce an insolvent; but it would certainly never produce a genius. Thus we observe that where thousands come reasonably near the mark at which they aim, some find they have fallen short of it by being too timid, others that they have overshot it by being too bold. If none were too bold, in all probability only a few would be bold enough to encounter the inevitable risks of trade with a due degree of spirit and enterprise. No greater fallacy exists than that of regarding 'reckless trading' as the sole source of insolvency. The state of trade abroad, the varying financial *status* of foreign houses, the fluctuations of prices caused by abundant or scanty crops, or even a greater or less production of wares, and a thousand other things that it is impossible to guard against, unite to make insolvency a contingency from which but very few are exempt.

The Accountant

ESTABLISHED 1874

JANUARY 19TH, 1952 VOL. CXXVI NO. 4022

CONTENTS

THE VERIFICATION OF STOCKS

THE Committee on Accounting and Auditing Research of The Canadian Institute of Chartered Accountants, which considers, from time to time, topics of special accounting interest, has recently devoted the seventh of its periodic bulletins – briefly referred to in 'North American Commentary', elsewhere in this issue – to answering the following question:

> 'Do the words, "as determined and certified by the management", appearing on a balance sheet in connexion with the valuation of an inventory, whether or not supported by the certificate usually obtained from the management, relieve the auditor of responsibility for the validity of the inventory figure, and if not, what is the auditor's responsibility?'

The Committee begins by pointing out that, under Section 112 (1) of the Companies Act, 1934 (Canada), the directors must submit to the company at each annual meeting a balance sheet, a 'general statement of income and expenditure', and a statement of surplus, together with the auditor's report. The responsibility for these accounts, irrespective of who in fact prepared them, rests with the directors. The Act further provides, in Section 112 (2) (*d*), that the inventory must be shown separately on the balance sheet and that 'the basis of valuation adopted and the manner in which such value has been determined in respect of various subdivisions of such inventory' must be disclosed. The principal reason for using the description, 'as determined and certified by the management', is to comply with Section 112 (2) (*d*), for the directors, being responsible for the accounts as a whole, must, in any case, be responsible for the constituent items of which the inventory is usually one of the most important. It follows, therefore, that the auditor, whose duty is to consider and report on the directors' accounts, must include the inventory in his appraisal.

The extent of his responsibility in this direction, however, is not clearly established, for circumstances have changed considerably since the leading relevant Canadian law cases, none of them recent, were decided. The Committee considers that, in the absence of any definite lead:

> '. . . the auditor should use at least that degree of care, skill and judgment, which might reasonably be expected from a person trained to carry out such a responsibility, having regard to the general standard of practice prevailing at the time'.

He must determine each case on its merits and apply such tests as will enable him to express an informed opinion.

In the opinion of the Committee, the generally accepted auditing procedures in Canada with regard to inventories include

consideration of the methods used in determining quantities and prices, a test of the recorded quantities with such available evidence as the rough working papers used at the physical count and stock control records and a check of the extensions, summations and summaries of the stock sheets to ensure their arithmetical accuracy. This examination must be sufficiently comprehensive to enable the auditor to satisfy himself that the stated basis of valuation is being followed and is consistent with that used in the preceding year.

It is interesting to compare the terms of this pronouncement by the Canadian Institute of Chartered Accountants with current opinions and practices in the United Kingdom and the United States. In this country, the broad principle of the auditor's responsibility with regard to the verification of stocks was laid down in the famous *Kingston Cotton Mills* case of 1896, in which it was held that the auditor is not a valuer, that it is not his duty to take stock and that he is not guilty of negligence if, in the absence of suspicious circumstances, he accepts the representations and certificates of responsible officials. Although this verdict is still valid, the development of accounting thought and the ever-growing significance of stocks in the financial accounts of modern industrial concerns have made a much more positive examination necessary. As well as carrying out a thorough mathematical check of the stock sheets, the auditor must also test both quantities and values with whatever other financial and stores records exist. He must also see that the basis of valuation is reasonable and consistent.

It would appear from this brief comparison that, in verifying stocks, the same essential techniques – an intelligent scrutiny of company records and the exercise of professional skill and judgment in assessing the degree of their accuracy – are common to the United Kingdom and to Canada. These methods are applied also in the United States where, in addition, the physical verification of stocks is now regarded as normal auditing practice. This extended procedure was first introduced in 1939 as a consequence of the notorious *McKesson & Robins* case, which disclosed that the president of McKesson & Robins Inc (Maryland), in collusion with other high officials of the company, compiled and submitted to the auditors a completely fictitious set of books with the result that the balance sheet assets were overstated by $21 million, of which nearly half was purported to be stocks.

The relevant directive issued by the American Institute of Accountants reads:

> 'Where the independent certified public accountant intends to report over his signature on financial statements in which inventories are a material factor, in addition to making auditing tests and checks of the inventory accounts and records, he shall, wherever practicable and reasonable, be present, either in person or by his representatives, at the inventory-taking and by suitable observation and inquiry satisfy himself as to the effectiveness of the methods of inventory-taking and as to the measure of reliance which may be placed upon the client's representations as to inventories and upon the records thereof. In so doing he may require physical tests of inventories to be made under his observation.'

The Council adds that where reliable permanent stores records are supported by a complete physical inventory made at a date other than that of the balance sheet and, in addition, a continuous physical check covering the whole stock once a year is in operation, the auditor may attend at any interim date he selects; the purpose being to test the reliability of the stores records on which the balance sheet inventory totals are based.

Failure to apply these extended procedures, where they are practicable and reasonable, must be mentioned by the auditor in his report and, in general, the omission of such a check precludes him from expressing an opinion on the fairness of the financial accounts taken as a whole, even if he has satisfied himself as to the accuracy of the inventory by other methods.

In Canada, the auditor, unless he is reporting on the accounts of a company which has to file with the Securities and Exchange Commission of the United States, is not required to attend the physical stocktaking, but the practice of being present is increasing because it is thought to be a useful means of assessing the worth of the system of internal control. In this country, with neither legal obligation to observe nor professional recommendation to follow, opinion on the question is divided. It is likely, however, that most accountants would consider that a thorough investigation of the methods of stores control in operation affords a better indication of the probable quantitative accuracy of the stocks than does actual physical inspection.

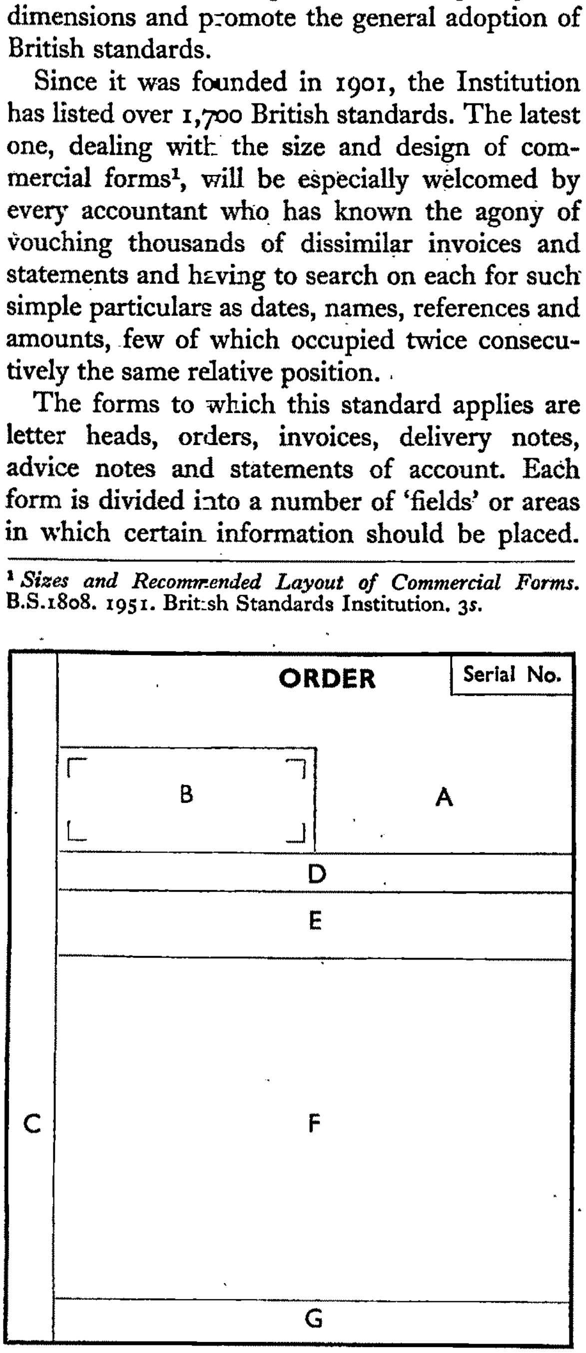
FORM REFORM

THE principal objects of the British Standards Institution are to encourage the improvement, standardization and simplification of engineering and industrial materials; to simplify production and distribution; to eliminate waste caused by unnecessary variety of patterns and sizes; and to set up standards of quality and dimensions and promote the general adoption of British standards.

Since it was founded in 1901, the Institution has listed over 1,700 British standards. The latest one, dealing with the size and design of commercial forms[1], will be especially welcomed by every accountant who has known the agony of vouching thousands of dissimilar invoices and statements and having to search on each for such simple particulars as dates, names, references and amounts, few of which occupied twice consecutively the same relative position.

The forms to which this standard applies are letter heads, orders, invoices, delivery notes, advice notes and statements of account. Each form is divided into a number of 'fields' or areas in which certain information should be placed.

[1] *Sizes and Recommended Layout of Commercial Forms.* B.S.1808. 1951. British Standards Institution. 3*s.*



Field A (see accompanying specimen diagram) should contain the sender's name, address and other usual particulars. On all forms, except letter heads, the title of the document should be shown boldly in the centre of the heading. Serial numbers, when used, should be placed on the top right-hand corner for easy reference. The telephone number should not be obscured when the documents are clipped together or filed. Field B is intended for the name and address of the recipient. If window or aperture envelopes are used, the exact placing of this field should be related to the position of the envelope window or aperture. The binding margin (field C) should be at least $\frac{3}{4}$ in. wide. D is the reference field and E (where required) should contain terms, instructions, and information, applicable to the particular transaction. Field F is intended for the main information appropriate to the form. The foot of the form (field G) should utilize space which would otherwise be wasted when typewriters are used. Where general instructions and other information take up much room, they should be printed on the reverse of the form and field G should contain reference to the fact.

Not all the fields are used for every form, the letter head, for example, requiring normally only A and D (combined), C and F. The horizontal and vertical lines used in the diagrams to indicate the respective areas would not necessarily be printed on the forms themselves and the actual dimensions of the fields would vary in accordance with the requirements of the user. The only refinement in design which we would suggest is that a field might be found on the forms for use by the recipient. The impression of the rubber stamp placed on incoming documents for office routine purposes, applied haphazardly, sometimes obscures the information on which it is superimposed.

As well as giving the recommended sizes for each form (the largest in every case is 13 in. by 8 in. except the statement of account which is 10 in. by 8 in., the vertical height being given first), the pamphlet contains particulars of Post Office regulations concerning envelopes and printed paper.

The ease and economy of handling and filing which would result from the universal adoption of this standard would far outweigh any cost or inconvenience caused by the change.

RESTRICTIONS ON ASSIGNING OR SUBLETTING

by T. J. SOPHIAN, Barrister-at-Law

ONE of the usual clauses to be found in modern leases is that restricting assigning or subletting or parting with possession of the premises or any part thereof. It is curious, however, that old leases, such as ground leases made for 99 years, did not usually contain such a clause and in practice its omission has been found to give rise to difficulties.

Absolute and Qualified Restrictions

Where such a restrictive clause is included in a lease, the important question which arises is in connexion with obtaining the consent of the landlord to any proposed assigning or subletting. Certain changes in the law were made by Section 19 (1) of the Landlord and Tenant Act, 1927, and it is necessary for the purposes of that Act to draw an important distinction between an *absolute* on the one hand, and a *qualified* on the other, restriction against assigning, subletting or parting with possession. If the lease contains a clause which absolutely prohibits such assigning etc., the benefit of Section 19 (1) of the 1927 Act cannot be invoked; but if, on the other hand, there is a qualified restriction, then the lease is to be read as if it included a proviso to the effect that the landlord's consent is not to be unreasonably withheld.

Assigning etc. after Refusal of Permission

Where the lease contains any clause requiring the landlord to give consent, the tenant must not proceed to assign or sublet or part with possession unless he has previously applied for such consent. If, notwithstanding his application, the landlord refuses to grant his consent, two courses are open to the tenant.

He may proceed without obtaining the landlord's consent; but this is a dangerous course, and it would be wiser for the tenant to apply by originating summons in the Chancery Division for a declaration to the effect that the landlord is unreasonably withholding his consent. One disadvantage in taking such a step is delay. Some time must inevitably elapse before the case can be determined and in the meantime, as so often happens, a proposed assignee or sub-lessee may not be prepared to wait and the deal is off. However, these are the practical alternatives facing the tenant and he must make up his mind as to what course of action he is going to take.

Unreasonable Refusal of Consent

Let us now turn to the question as to what constitutes an unreasonable withholding of consent. One may begin with the bald principle that each case must be determined on its own facts, but at the same time some guidance is given by the authorities.

In *Houlder Bros. v. Gibbs* ([1925] Ch. 198) the lessee was proposing to assign the lease to a person who happened to be the lessee of adjoining premises belonging to the same landlord. The landlord refused his consent for the reason that if he did so he would lose good tenants of these adjoining premises and might have great difficulty in re-letting them. The Court held that consent was being unreasonably withheld. Tomlin, J., stated that the law was to the effect that it was by reference to the personality of the lessee or the nature of the user or occupation of the premises that the question of reasonableness had to be determined.

> 'It is quite true', he added, 'that the injury threatened or apprehended to the lessor may be in respect of something which has nothing to do with the lease of the demised premises. It may be in relation to other property, of which he is the owner, but the danger must come from the nature of the user or occupation or from the personality of the assignee.'

Some doubt, however, was cast on the *Houlder v. Gibbs* case by the House of Lords in *Tredegar v. Harwood* ([1929] A.C. 72).

In this particular case it was held that the landlord was not acting unreasonably in requiring the tenant to insure the property with the particular company with which the landlord desired the property to be insured.

The fact that the reason for refusal was because the landlord desired to obtain possession of the premises for himself was held to constitute an unreasonable withholding of consent in *Bates v. Donaldson* ([1896] 2 Q.B. 241), and this principle was followed in a later case in which the landlord had in fact purchased the reversion of the lease with the express object of obtaining possession of the property for himself when the lease

expired (*Re Winfrey & Chatterton's Contract* ([1921] 2 Ch. 7)). Again, consent has been held to be unreasonably withheld where the landlord was willing to give his consent only on the condition that the lessee and the proposed assignee should undertake to pay any increase in rates (*Young v. Ashley Gardens Properties* ([1903] 2 Ch. 112)); and yet again where the landlord required the proposed sub-lessee to enter into direct covenants with him relating to matters contained in the head-lease, including the payment of the rent reserved by the head-lease which was higher than the amount of the rent reserved in the sub-lease (*Balfour v. Kensington Mansions Ltd* ([1932] 49 T.L.R. 29)).

Tenant to Breach

Where a tenant has committeed previous breaches of covenant, that may be a ground for the landlord reasonably refusing his consent. This, including the making of extensive structural alterations without authority, was held to be the case in *Goldstein v. Sanders* ([1915] 1 Ch. 549). On the other hand, in *Farr v. Ginnings* ([1928] 44 T.L.R. 249) the commission of breaches of repairing and other covenants by the tenant was held not to disentitle the tenant to a refusal of consent, inasmuch as the lessor by his own conduct had not treated the breaches as being of a serious nature.

Alteration of User

The alteration of the character of the user of the premises or of the premises themselves may constitute a valid reason for refusal of consent. Thus in *Barrow v. Isaacs* ([1891] 1 Q.B. 417, 424) consent was held not to be unreasonably refused in a case where the proposed assignee intended to use the premises for a user which not only would have changed the character of the premises, but also might have depreciated the property or have been otherwise injurious to the landlord.

On the other hand, the case of *Premier Rinks v. Amalgamated Theatres* ([1912] W.N. 157) would seem to indicate that a landlord may not make his consent conditional on the proposed assignee refraining from carrying on a trade which would compete with the business carried on by the landlord himself. Again, reference may be made to the case of *Premier Confectionery (London) Co Ltd v. London Commercial Sale Rooms Ltd* ([1933] Ch. 904). In that case the effect of the proposed assignment would have resulted in a tobacco kiosk being occupied separately from a tobacco shop and the landlord was of the opinion that such separation might have injuriously affected the property and it was held that consent was reasonably refused in the circumstances.

In *Wilson v. Fynn* ([1948] 2 All E.R. 40) it was held that the Court was entitled to consider not merely the terms of the lease, but any collateral agreement between the landlord and the tenant, as for example, with regard to the mutual enjoyment of facilities in each other's premises, in determining the question of reasonableness.

In *Parker v. Boggan* ([1947] 1 All E.R. 46) the fact that the proposed assignee enjoyed diplomatic privilege so that the landlord might be debarred from suing him for rent or otherwise, was held not to be a good ground for refusal.

Controlled Premises

The factor that premises are controlled by the Rent Acts has introduced a new complication into the question of reasonableness. In *Swanson's Agreement* ([1949] 1 All E.R. 140), the tenant was a contractual tenant of controlled premises and he would automatically at the end of his tenancy have become a statutory tenant, and it was held that the landlord was unreasonably refusing his consent to a proposed assignment of the lease which had a short time to run. This case, however, was distinguished in the two cases *Lee v. Carter* ([1948] 2 All E.R.690) and *Swanson v. Forton* ([1949] 1 All E.R. 135). In these cases the premises were controlled, but the Court held that the landlord was not unreasonably withholding his consent to the proposed assignment; the reason for the distinction apparently being that while in the previous case of *Swanson's Agreement* there would, in any event, have been a controlled tenant entitled to continue in occupation at the end of the lease, whether or not there was an assignment, in the later, on the other hand, the landlord would have been entitled to possession at the end of the lease. In the one case, *Lee v. Carter*, the tenant was a company and as such would not have enjoyed any right to continuing in occupation under the Rent Acts when the lease ended; whereas in the other, *Swanson v. Forton*, the tenant at the time in question had lost the protection of the Acts as far as continuing in possession was concerned, because not only was he not residing on the premises, but also he had in fact sublet the premises furnished with the result accordingly that the protection of the Acts – at any rate during such furnished subletting – had been withdrawn.

NORTH AMERICAN COMMENTARY–XXXI

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
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Journal of Accountancy, New York, November 1951

Education for Certified Public Accountants

AT the annual meeting of the American Institute of Accountants, Mr Donald Perry, chairman of the Institute's Board of Examiners, is reported to have suggested that the Institute appoint a commission on standardization of requirements for the C.P.A. certificate, including representatives of state boards of accountancy, accounting educators, practitioners and certain Institute committees. The editorial, in approval, urges the need for uniformity since

> 'in many States standards of admission to the profession are not high enough to assure training commensurate with the responsibilities which C.P.A.s are today expected to assume'.

The C.P.A. Handbook

The Institute's project for aiding certified public accountants conducting small and medium-sized practices by publishing a reference handbook is said to be progressing. The initial outline was exposed to the criticism of several hundred C.P.A.s and resulting detailed questionnaires were prepared. Each questionnaire was sent to some 125 practitioners to obtain basic information for the various chapter authors, who were selected for their specialized qualifications and are acting without compensation. A consultant has been appointed for each author and Mr Robert L. Kane, educational director of the Institute, is the editor. The editorial comments on the monumental nature of this work, 'unique in the breadth of participation in its preparation'.

Uniform Expense Accounting in Fire and Casualty Insurance

Mr Thomas C. Morrill, Director of Research, State Farm Insurance Companies, tells how, since a United States enactment of 1945, uniform accounting has been very largely established among fire and casualty insurance companies in the United States. Previous glaring inconsistencies of accounting method are exemplified by the treatment of commissions by stock fire companies. These commissions comprise about 60 per cent of total expenses, but rates vary widely according to the kind of insurance. Yet ten out of forty-four leading stock and mutual fire insurance organizations were apportioning commissions in the ratio of the premium volume of each class of insurance to the total premium volume, and there were nine varieties of commission allocation among the forty-four. Some customers were clearly paying more than their fair share of commission cost and some less.

Internal Control and the Certified Public Accountant

The extended definition of internal control in North America covers far more than the textbooks indicate, says Mr Alvin R. Jennings, C.P.A. The American Institute's committee on auditing procedure includes in this term the whole plan of organization for: (1) safeguarding the assets; (2) checking accounting data; (3) promoting operational efficiency; and (4) encouraging adherence to managerial policies. Mr Jennings discusses two methods by which the C.P.A. may record the result of a review of the internal control. The procedure method gives a descriptive account of the steps taken in recording each of the major classes of accounting transaction, but Mr Jennings prefers the questionnaire approach. The accountant may draft different general questionnaires for commercial and industrial concerns, public utilities, banks and trust companies, etc., and the questions are best framed so that a negative answer indicates weakness. Completion of the questionnaire as each stage of the testing of accounting records is dealt with tends to bring to the auditor's attention any matters of immediate significance. Mr Jennings argues for special staff training in appraising and reviewing systems of internal control.

Electronic Accounting

Reports from the twentieth annual meeting of the Controllers' Institute include a statement by Mr Daniel M. Sheehan, Vice-president of the Monsanto Chemical Co, St Louis, that electronic accounting equipment is revolutionizing the keeping of accounting records. He says that the so-called 'brain', or electronic programmed calculator, produces in eight hours reports which formerly consumed fifty man-days, and he

predicts that monthly reports of large companies will become available only a day or two after the month's end, while controllers will be able to prepare operating reports semi-monthly or oftener. Another speaker emphasized that the accountant would become essentially a planner and analyst, exploiting to the full the operating controls made possible by the electronic accounting system.

Unadorned Annual Reports

As the result of a questionnaire sent to stockholders by the Allegheny Ludlum Co, of Pittsburgh, it would seem that the trend in North America to more and more ornamental reports is *not* in line with the public's wishes. Out of 3,266 stockholders who replied, representing one-quarter of the whole, 54·7 per cent prefer the plain, factual report as against 29·6 per cent preferring the elaborate type. The rest have other preferences, mainly for a report containing financial statistics and the auditor's report only.

Shortage of Trained Accountants

An article from *Business Week* is reported in full, with its statement that

> 'It is harder to get and keep an accountant now than it was ten years ago – even though in 1941 there were only 21,271 C.P.A.s and today there are 41,000'.

The causes are said to be: (1) doing business with the government; (2) living under controls; (3) new taxes; (4) industrial expansion. The salary stabilization rules prevent salary increases to key employees and C.P.A. firms are said to be resorting more and more to junior partnerships as a method of keeping their top people. Control accounting is indicated as the big development for accountants in the past twenty-five years, so that today the accountant is an increasingly important man in top management councils. A note added by the *Journal* indicates that its endorsement of these statements is not necessarily to be assumed.

The Canadian Chartered Accountant,
Toronto, November and December 1951

Uniform Course of Instruction for Chartered Accountant Students

An editorial says that the idea of a uniform course of instruction for the uniform C.A. examinations has been gaining strength, as indicated by resolutions passed at the last annual meeting of the Canadian Institute. It may be added that opposition to such a course is probably strongest in Quebec Province, where the Provincial Institute requires those students resident in the two main cities to train by attendance at the universities.

Oil Production Accounting

In one of a series of addresses on oil production in Western Canada, given at the forty-ninth annual meeting of the Canadian Institute of Chartered Accountants, Mr Arthur Maw, M.C., C.A., deals with important accounting aspects. For income-tax purposes total exploration costs may, in Canada, be charged against revenue in the year in which they are incurred, and any excess over the revenue may be carried forward, but they need not be so charged in the books. Mr Maw instances the discovery by Imperial Oil Co of the Leduc oilfield in 1947, after the company had spent more than $20 million, without success, over many years. It soon became clear that ultimate revenue would far exceed the total exploration costs incurred since the company's search for oil in the west first began. In such circumstances the actual policies of companies lie between the two extremes of (1) capitalizing expenditures previously written off and (2) leaving them so charged to revenue. Mr Maw is concerned with the particular inadequacy of the oil producer's balance sheet, in that the book values of fixed assets more often than not provide no indication of potential worth or present realization value, even by application of a suitable cost increase factor. He suggests that management might include in the balance sheet the figures of estimated reserves of oil in barrels, not dollars, prepared by the petroleum engineers. Auditors might then refer in their report to the reports examined by them, supporting these figures. The investor would thus be helped in calculating the intrinsic values behind stock exchange quotations.

Research Bulletin No. 7: The Auditor and Inventories

The Committee on Accounting and Auditing Research of the Canadian Institute considers that accepted auditing procedure in Canada, in regard to inventories, includes: (1) a review of the methods of determining quantities and values; (2) the testing of quantities with confirmatory evidence; and (3) the testing of pricing and clerical accuracy. While it cannot be said that generally accepted auditing procedures in Canada require attendance by the auditor at the physical stocktaking, the committee announces an increasing tendency for Canadian auditors to adopt this practice.

CHRISTMAS COMPETITION RESULTS

A SALT FOR CERBERUS

AN eminent professor once condemned a set of general knowledge questions which appeared in a weekly review on the grounds that what was too difficult for him was too difficult. It follows from this criticism which, although extreme, is sound, that the setter's task is to find the level appropriate to the majority of readers, always keeping in mind that the sole object of such inquisitions – especially at Christmas – is to entertain.

The entrants for the general knowledge competition which appeared in our Christmas issue of December 22nd, 1951, caught the spirit of the occasion admirably and were seldom at a loss for an answer, however conjectural it may have been. Thus it was diverting to read when wading through the entries that the United States had appropriated for its motto that of the Three Musketeers; and the suggestion that Cerebos was the name of the monstrous dog guarding the gate to Hades had, regretfully, to be taken with a pinch of salt. It was also a surprise to learn that Lloyd George is already so much of a legend that his birthplace is claimed by seven cities. No competitor pointed out that there are seven Scottish note-issuing banks and not six as implied by the question. One answer airily dismissed the entire banking system north of the border in a single word which looked like 'Hoots', but which, on closer inspection, turned out to be 'Coutts'.

The average mark scored was 85 per cent. One competitor, Mr V. Biske, 5 Kingsmead, Upton Lane, Chester, achieved near perfection and receives the first prize of books to the value of five guineas to be selected from the publications of Gee & Co (Publishers) Ltd. The second prize of books to the value of three guineas goes to Mr M. W. Innes, Chantry Cottage, Maltman's Lane, Gerrards Cross, Bucks, and three consolation prizes each of one guinea's worth of books are awarded to Miss R. A. Crawford, c/o Barstow & Millar, 20 Queen Street, Edinburgh; Mr Philip A. Cohen, 85 Teignmouth Road, London, NW2; and Mr Michael I. Gee, 21 Chessington Avenue, Finchley, N3.

We thank all our readers who contributed to the success of the competition by sending in entries.

ANSWERS

1. The Rt. Hon. Anthony Head, P.C., M.P., Minister of War.
2. The Gloucestershire Regiment.
3. 32.
4. (*a*) the flag of St George, (*b*) the white ensign, (*c*) the red ensign.
5. Trinity House.
6. The average man has rather less than nine pints.
7. Haemoglobin.
8. William Harvey.
9. Saltpetre, sulphur and charcoal.
10. Tinker and Pedro.
11. Sir Toby Belch in *Twelfth Night.*
12. Thomas Hardy and Hugh Walpole.
13. (*a*) Small fancy cakes and biscuits, decorated with marzipan etc., (*b*) pancakes, (*c*) custard enclosed in sponge-cake.
14. A. E. Housman, in *A Shropshire Lad.*
15. Proserpine, in *Candida.*
16. London, New York, Tokyo, Moscow, Shanghai and Chicago.
17. St Paul.
18. Routes 1 and 2. At Baker Street station.
19. Homer.
20. G. K. Chesterton in *The Flying Inn.*
21. Wemmick.
22. Titian.
23. Sir Philip Sidney in *An Apologie for Poetrie.*
24. Rudyard Kipling's Kim.
25. Wordsworth.
26. The hero of one of Kipling's *Jungle Book* stories.
27. About 25 years for an African elephant and 45 years for an Indian elephant.
28. Siam.
29. Giant Despair in Bunyan's *Pilgrim's Progress.*
30. (*a*) Franz Kafka, (*b*) A. J. Cronin, (*c*) Thomas Love Peacock.
31. To reduce the national debt and to administer certain public funds.
32. The Exchange Equalization Account.
33. 1929.
34. The seven note-issuing Scottish banks are: The Bank of Scotland, The Royal Bank of Scotland, The Commercial Bank of Scotland, The National Bank of Scotland, The Union Bank of Scotland, The British Linen Bank, and The Clydesdale and Northern Bank.
35. (*a*) A Customs officer who examines cargoes. (*b*) Every wrongful act committed by the

master or crew to the prejudice of the owner or charterer of a ship. (*c*) A clause to the effect that grounding in the Canal shall not be deemed to be the equivalent to stranding, although the underwriters agree to pay any expenses directly occasioned by such grounding.

36. (*a*) Apes, (*b*) Lions, (*c*) Cats.
37. (*a*) A species of duck with a sharply serrated bill. (*b*) The species of gull commonly found in the Atlantic and Arctic Oceans. (*c*) A wood-grouse.
38. The pelicans brought by air from America to replace the two in St James's Park who died.
39. The short, erect tail of a deer, hare or rabbit.
40. (*a*) Keats's, (*b*) Romeo and Juliet's, (*c*) Omar Khayyám's.
41. Macbeth.
42. The one referred to in the poem in Chapter II of *Alice in Wonderland.*
43. (*a*) Goethe's. (*b*) O. Henry's.
44. Malachi. Curse.
45. T. S. Eliot in *The Hollow Men.*
46. Milton, in *Paradise Lost.*
47. Cerberus.
48. Shelley, in *Peter Bell the Third.*
49. 'A robin redbreast in a cage.'
50. Sidney Smith's.
51. 'The person who for his own purposes brings on his lands and collects and keeps there anything likely to do mischief if it escapes, must keep it in at his peril, and if he does not do so, is, prima facie, answerable for all the damage which is the natural consequence of its escape.' (L.R. 1 Ex. 265, 279–80.)
52. Treason, murder, piracy with violence and setting fire to H.M. ships or dockyards.
53. (*a*) Ignorance of the law is no excuse. (*b*) The law does not concern itself with trifles. (*c*) No one can give what he has not got.
54. The Court of Appeal and the High Court of Justice. The latter is subdivided into the King's Bench Division (embracing the Assizes), the Chancery Division, and the Probate, Divorce and Admiralty Division.
55. Fifty years after his death.
56. The General Election.
57. The obverse and reverse sides of a coin, hence head and tail.
58. A St Andrew's cross.
59. Belinda, in Pope's *The Rape of the Lock.*
60. Macbeth.
61. Rupert Brooke by Frances Cornford.
62. (*a*) Keats, (*b*) Thomas Gray, (*c*) Pope.
63. Suppé.
64. 1381.
65. Good King Wenceslas.
66. Othello.
67. (*a*) Gules, (*b*) Argent, (*c*) Azure.
68. Gladstone.
69. W. E. Henley.
70. The faculty of making happy and unexpected discoveries by accident.
71. Antrim, Armagh, Down, Fermanagh, Londonderry and Tyrone.
72. St Andrew, St George, St Patrick, St David, St Denis of France, St James of Spain and St Anthony of Italy.
73. A hexagon.
74. Elijah.
75. Pride, wrath, envy, lust, gluttony, avarice and sloth.
76. The Derby, the Oaks, the St Leger, the 2,000 Guineas and the 1,000 Guineas.
77. (*a*) Eton, (*b*) Cambridge, (*c*) near Hambledon, Hants.
78. Shaw's *St Joan.*
79. Ibsen's *Ghosts.*
80. Garrick's.
81. *E Pluribus Unum.*
82. 1776. July 4th.
83. Briefly, America for the Americans.
84. Abraham Lincoln, James Garfield and William M'Kinley.
85. Mr Roosevelt and Mr Hoover.
86. Sir John Moore.
87. Milton, in a sonnet.
88. That 'the Battle of Waterloo was won on the playing fields of Eton'. The present Duke stated that his illustrious ancestor had not made such a remark.
89. (*a*) Spanish and Venetian galleys, directed by Don John of Austria and the Turkish navy. (*b*) The Grand Army of Napoleon and the Austrians. (*c*) The Persians and the Greeks.
90. Modest stillness and humility.
91. The diagonal multiplied by half the sum of the perpendiculars drawn upon it from the two opposite angles.
92. (*a*) 36, (*b*) 20, (*c*) 40.
93. 46,656.
94. A chain of four poles' length used for land-surveying.
95. The science of measuring the earth's surface or portions of it.
96. The opening of the Suez Canal.
97. (*a*) Beethoven, (*b*) Schubert, (*c*) Haydn.
98. (*a*) Mozart's *The Magic Flute*, (*b*) Verdi's *Rigoletto*, (*c*) Bizet's *Carmen.*
99. Henri Murger.
100. Shelley, in 'To a Skylark'.

WEEKLY NOTES

New Year Honours

In recent issues it has been our privilege to offer congratulations to members of the profession on whom honours were conferred in the New Year Honours List. We now congratulate Mr Henry Joseph Callender, A.S.A.A., F.I.M.T.A., Town Clerk and Chief Financial Officer, Lichfield, who has been awarded the M.B.E.

Road Haulage Vehicles and Taxation

The difficulties of replacing plant and machinery at present high prices out of profits sadly depleted by heavy taxation have been well ventilated at recent public sittings of the Royal Commission on the Taxation of Profits and Income. Additional evidence has now been provided in a letter which the Road Haulage Association Ltd has sent to the Chancellor of the Exchequer. The letter says that the recent steep rise in replacement value of road haulage assets (particularly vehicles) has made it increasingly difficult for the Association's members to replace them out of reserves set aside from profits. Wear and tear and other allowances on such assets, being based on cost instead of replacement value, are proving inadequate. As a result, the letter says, heavy taxation has contributed to placing the Association's members in a critical financial position and they must either seek additional capital or defer replacement of their vehicles for a longer period than is economical.

Farmers' Incomes

In our issue of February 17th, 1951, we referred to statistics of farmers' incomes, based on a farm management survey carried out by agricultural economists at universities and colleges, and compiled by the Ministry of Agriculture and Fisheries. A further report has now been published by the Ministry,[1] to include figures for 1948–49, i.e. figures shown by accounting periods ended in the year up to July 31st, 1949. They show a sharp recovery from the exceptionally low figures of 1947–48, which were adversely affected by the freak weather conditions of early 1947. The 1948–49 figures reflect the increases in earnings arising from the substantial additions to the prices for agricultural produce which were announced in August 1947 as part of the Government's long-term programme of agricultural expansion. In addition, weather conditions in the period now covered were especially conducive to high yields. Thus the average net income per farm in the sample was £1,059 against £531 in 1947–48, the previous highest being £1,063 in 1941–42. The average net income per 100 adjusted acres was £617, against £305 in 1947–48 and £500 in 1941–42.

In arable farming districts the net farm income rose from £3 to nearly £8 per acre in the year. The statistics run to thirty-two different tables which give a comprehensive picture of farm finance in the sample covered, which in the case of 1947–48 and 1948–49 comparisons was nearly 2,500 farms, and in the case of the four-year period ended with 1948–49 was 860 farms.

[1] H.M.S.O. 6s net.

Visible Deficit in 1951

With the publication of the provisional December trade figures last week-end it is possible to get some idea of the size of the visible trade deficit in 1951. A word first, however, about the December figures themselves. After rather better results for the earlier part of the final quarter of the year, December saw a return to a larger trade gap. In November, the visible deficit was £75 million. Last month it was just over £100 million on a provisional, conventional estimate. Both exports and imports were lower, as would be expected with the Christmas season to take into account. But on a working-day basis, exports were lower than November and imports were higher. The other adverse feature was the decline in the total exports to North America.

For the year as a whole, the adverse balance can be provisionally estimated at £1,210 million, compared with £352 million in 1950. If 10 per cent is taken off imports to allow for the favourable element of c.i.f. in that item, the 'true' deficit is probably around £820 million for 1951, compared with about £90 million in 1950. It is probable that this gap in 1951 was about twice as large as could possibly be closed by invisible earnings. In other words, the balance of payments deficit was of the order of £400 million – unless there were some remarkably favourable developments in the invisible items which have yet to be revealed.

To borrow a metaphor from accountancy, the 1951 trading results are very soon to be available and the account will show the trading causes of a desperate cash position – that is, the grave drop in the gold and dollar reserves.

First Bank Addresses

This year's annual remarks by the chairmen of the banks, coming as they do at the close of a financial year which has seen near its end the reintroduction of something vaguely recognizable as a traditional monetary discipline, will be read with particular interest. The season has opened with two statements from the North – one from the chairman of Martins Bank and another from the chairman of the District Bank.

Mr A. Harold Bibby, of Martins, dealing with credit restrictions in his speech published last week, considers that some indication of how seriously the Government is prepared to give a lead in limiting credit facilities will be seen in the policy, in this respect, of the nationalized fuel industries which have been doing a large hire-purchase business with domestic users of appliances. To combat inflation he

would make particular use of incentives for all sections of the working community as a means of raising production. He would have bonuses paid to increase effort rather than bonuses calculated on age or years of service.

Sir Thomas Barlow of the District Bank welcomes the reintroduction of monetary discipline, but expresses some concern about the effect on costs and export prices of limiting supplies to the home market. This sensitivity to the flow of goods on to the domestic market is understandable in a bank whose head office and many interests are in Lancashire where cotton textile manufacture is a major industry. On controls, as distinct from a monetary discipline, Sir Thomas is satisfied that they had gone too far and were exercising a restrictive influence – an extreme situation which a financial curb may help to offset, provided it can be used quickly and selectively enough.

Heavy Gold Losses

A larger drop in the gold reserve was expected for the fourth quarter of 1951 than was experienced in the third one. These grim forebodings have been amply borne out by events. Gold losses in the December quarter have turned out to be a record – higher than the rate of loss experienced immediately before the devaluation of the pound in 1949.

The recent history of the changes in the gold and dollar reserves is set out in the following table.

Figures represent $ million

Period	Gold and Dollar Surplus	Marshall Aid etc.	Change in Gold Reserves	Gold Reserves end of Quarter
1951:				
4th quarter	— 940	+ 6	— 934	2,335
3rd ,,	— 638	+ 40	— 598	3,269
2nd ,,	+ 54	+ 55	+ 109	3,867
1st ,,	+ 360	+ 98	+ 458	3,785
1950:				
4th quarter	+ 398	+ 145	+ 543	3,300
3rd ,,	+ 187	+ 147	+ 334	2,756
2nd ,,	+ 180	+ 258	+ 438	2,422
1st ,,	+ 40	+ 256	+ 296	1,984
1949:				
4th quarter	— 31	+ 294	+ 263	1,688
3rd ,,	— 539	+ 313	— 226	1,425
2nd ,,	— 631	+ 370	— 261	1,651
1st ,,	— 330	+ 386	+ 56	1,912

The net gold and dollar deficit for the quarter was $940 million compared with $638 million in the previous quarter. The loss to the reserves was $934 million and $598 million for the corresponding periods, Marshall Aid in each case providing a small addition to the reserves. These figures take into account the payments to the United States and Canada of interest on the post-war loans.

As the Chancellor of the Exchequer pointed out recently, there has been no time yet for the measures taken towards the end of the year to protect sterling to have had any effect on the fourth quarter's figures. These reflect the various factors which were working for and against the pound in the second half of 1950. On balance it is clear that they were working against it. Imports stayed at a high level for the sterlin area as a whole and exports, especially the com modities whose large earnings mean so much to th sterling area's central funds, put up a disappointin performance. The most encouraging thing that ca be said about these figures is that the rate of loss i November and December was rather lower than tha in October. It now remains to be seen what effect th recent restrictions on imports and capital investment plus a little help perhaps from a lower rate of stock piling of strategic reserves, will have on the firs quarter's figures. There will, too, be a slight diminish ing of pressure, probably due to seasonal factors, bu this, if it comes, should not be a cause of facil optimism. The reverse side of that coin is heav pressure in the autumn.

World Bank in 1951

Last year the World Bank made loans amounting t about £74 million in eleven different countries. Som of its activities were particularly interesting as pre cedents for future operations.

It made its first loans for the development of th overseas territories of a member country in the yea just ended. Some £14 million was advanced fo projects in the Congo and £10 million to Belgium In this instance the bank's finances are playing similar role to funds made available in this country b the taxpayer under the Colonial Development an Welfare Act.

Another new feature last year was loaning funds i currencies other than dollars. In the case of loans t Jugoslavia, the funds are to be made available i pounds, francs (French and Belgian) and lire. Th loan is for capital works in that country. Iceland is t benefit from a similar facility.

Last year the bank made a loan to the Union o South Africa amounting to about £7 million fo transportation developments. It was joined in th project by eight American commercial banks whic put up a further £3·5 million. Thus for the first tim the World Bank undertook a financial arrangement i association with private banks.

Britain's E.P.U. Deficit continues

Although this country's deficit with the Europea Payments Union was lower last month than i November, the gold drain was larger. This wa because Britain's accumulated deficit is now mor than 60 per cent of its initial quota and a highe proportion of its liabilities for the month mus therefore be paid in gold. The gold loss in Decembe was £27 million compared with £22 million i November.

The United Kingdom's deficit for the month wa £53 million compared with £61 million for Novem ber. These kinds of figures are similar to the ones fo the country's trade position with the whole of th world during the fourth quarter of 1951. The suggest that the country's trading position wa slightly less precarious than round about Octobe but that it was desperately weak nevertheless.

FINANCE AND COMMERCE

Frustration continues in stock markets. While there appear to be no reasonable grounds for optimism there is at the same time a feeling that there is no cause for undue pessimism. No clearly defined investment plan is possible, however, until the authorities make known the full programme of methods by which economic equilibrium is to be restored.

An early indication of the proposed excess profits tax would be a welcome factor in allaying at least some of the uncertainty which now exists. This applies with equal emphasis, not only to the stock market, but to financial, commercial and industrial circles generally.

Meanwhile the expectation of still higher interest rates, the restriction of raw material and labour supplies available to non-essential industries and the heavier taxation of essential producers' profits combine to confuse the immediate outlook.

Joshua Tetley

We begin this week the reprint of the accounts of Joshua Tetley & Son Ltd, the brewers and bottlers, of Leeds. These accounts follow very closely the lines of the Caterpillar Tractor Company's accounts, which we reproduced in our issues of March 24th and 31st last year.

The main point in these accounts is not that they introduce some new fashion. Balance sheets and profit and loss account are drawn up on the conventional lines. In addition, however, there is the five-year trading account and statement of financial position, through which shareholders can see right into the business in a way virtually impossible – with the very fewest exceptions – in this country.

The reprint, owing to the limitations of space, must be spread over two issues of *The Accountant*, and the first instalment this week covers what may be called the normal portion of the accounts – the general balance sheet and the consolidation.

The Way Ahead

Prevention being better than cure, may we hope that the 'more graphic style' in which next year's accounts of Hecht, Levis & Kahn Ltd will probably be issued does not mean something too ultra-modern. We can imagine the company's business of rubber merchants and traders being illustrated by drawings of bales of rubber, each bale representing 1,000 something-or-other.

This 'modern' movement has served its purpose. It has broken the ice and proved that company accounts need not necessarily be confined to the drab minimum. Our view, however, is that the way forward lies in the Caterpillar Tractor and the Joshua Tetley style of an intelligent presentation of figures, maybe with a few pictures to add colour, rather than in the diagrammatic style which seems to wrap up still further the very information company accountants should be trying to unfold.

Extravagant

We have said some nice things in the past about the accounts of Tutt-Bryant Ltd (of Australia), but the 1951 effort, which has just reached us with the compliments of Mr J. M. Gosper, the director of development, seems to us a little over-extravagant in its production.

We refer, not to the annual report itself, nor to the separate brochure in similar style showing 'Tutt-Bryant equipment for national development'. This latter, an extremely interesting illustrated description of Tutt-Bryant machines for earth-moving, road construction and maintenance, transportation, building, etc., is an excellent advertisement of the company's activities and products.

We refer to the folder which does no more than serve as a container for these two brochures. It takes 3½ ounces of quality paper as compared with the 1½ ounces of our daily newspaper.

The accounts have a simplicity of expression which a few companies in this country have begun to use. Thus, in the consolidation, under 'Capital employed', we have 'Preference and ordinary shares subscribed in cash', 'Share premiums paid in cash' and 'Undistributed profits retained in the business' composed of 'Reserved for general business purposes' and 'Available for future appropriation'.

The consolidated profit and loss account opens with 'Sales of equipment, spares and service and commission earned' which, less 'Cost of products sold and services rendered', gives 'Gross trading income of the group'; and ends with 'Reserved for general use in the business', 'Appropriated for payment of dividends' and 'Carried forward for future appropriation'.

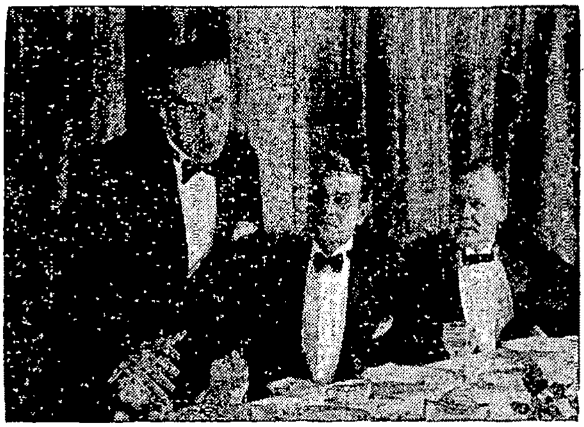
Special Reserve

The last accounts of Raleigh Industries Ltd show an all-out effort to build up the special reserve to meet the excess replacement cost of fixed assets. Note No. 6 taken from the notes on the accounts shows how this has been done.

6. Special Reserve to meet excess replacement cost of Fixed Assets £2,700,000. This is made up as follows:

	1951 £	*1950 £*
Balance at August 26th, 1950	953,792	*500,000*
Add Transfer from General Reserve	1,000,000	—
Transfer from Excess Profits Tax Post-War Refund Account	296,208	—
Amount charged against Profits of year in respect of Depreciation of Plant and Machinery (see Note 9)	100,000	*96,600*
Transfer from Provision for Depreciation of Plant and Machinery	—	*83,292*
Surplus on realization of Fixed Assets	—	*4,340*
Appropriation from Profit and Loss Account ..	350,000	*269,560*
Balance at August 25th, 1951	£2,700,000	*£953,792*

The £1 million taken from general reserve empties that account. The excess profits tax post-war refund balance, having been expended on fixed assets (Note 14 explains), is brought into the replacement account. The account has also been credited with the £100,000 charged against the year's profits in respect of depreciation of plant and machinery.



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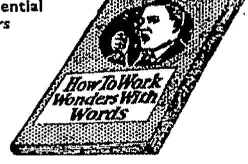

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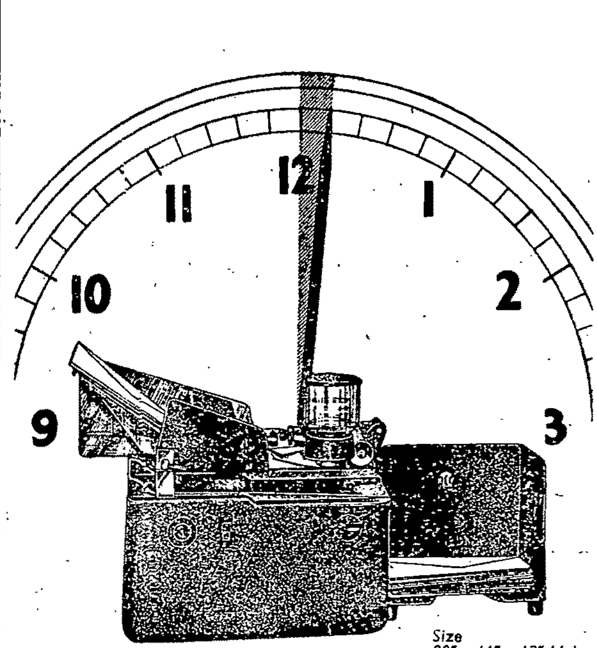

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In this connexion, Note 9B explains that the directors are of the opinion that the accumulated amount set aside at July 1st, 1948, for depreciation of plant and machinery is still in excess of that which is reasonably necessary for this purpose having regard to the original cost and probable remaining life of the plant and machinery in use at August 25th, 1951.

Accordingly, in order to comply with the Companies Act, 1948, the amount charged against the profits of the year in respect of depreciation of plant and machinery has been transferred to the capital reserve set up to meet the excess replacement cost of fixed assets.

Sir Harold Bowden, the chairman, in his statement with the accounts says that the £2,700,000 is in the directors' opinion 'a reasonable approximation of the total amount required at the present time to replace these assets at current high prices taking into account the life still remaining in them.

'The fact that we have been able to earmark such a large sum for this purpose,' he adds, 'is the result of the wise and conservative financial policy adopted by us in the years gone by in retaining in the business what no doubt appeared at the time to be excessive amounts.'

Money Market

With applications totalling £217¼ million the market obtained 54 per cent of its 'Tuesday–Saturday' Treasury bill requirements on January 11th. There was a full allotment of bills covering the Easter Monday and falling due the following day. The average discount rate was 19*s* 6·90*d* per cent. This week's offer is increased by £20 million to £170 million. There is no call against Treasury deposit receipts.

JOSHUA TETLEY & SON LIMITED (THE COMPANY) AND ITS SUBSIDIARY

Consolidated Profit and Loss Account – for the year ended September 30th, 1951

	1950					
£	£	£		£	£	£
246,481	246,481		Company's Net Profit		192,924	192,924
	4,498		Subsidiary's Net Loss (not dealt with in the Accounts of the Company)		721	
	241,983		Group Net Profit		192,203	
			The following items have been taken into account before arriving at the above Group Net Profit:			
	110,676		Depreciation of Properties, Machinery, etc.		130,022	
			Emoluments of Directors of the Company:			
		4,519	Fees (excluding £117 Fees received from a Company where Directorship is held as nominee)	4,276		
		13,589	Management	16,770		
		1,373	Pension and Life Assurance Schemes (excluding £1,181 charged to Provision for Pensions)	5,011		
		19,481	(Aggregate Emoluments £27,355 : £20,662)	26,057		
		6,250	Pensions to past Directors	6,667		
	25,731				32,724	
	19,250		Interest on Debenture Stocks		40,583	
			Taxation on the Profits of the year:			
		96,693	Profits Tax	129,000		
		190,033	Income Tax	193,255		
	286,726				322,255	
	5,012		Legal and other Expenses of Acquisition of Licensed Properties		17,157	
		293	Income from Trade Investments	224		
		3,657	Interest on Government Securities	3,657		
		620	Interest on Tax Reserve Certificates	—		
	4,570				3,881	
			Deduct:			
			Amounts allocated to Reserves:			
	100,000		General Reserve		70,000	
	25,000		Property Improvements Reserve		—	
125,000						70,000
121,481						122,924
			Deduct:			
			Dividends (Net) for the year ended September 30th, 1951:			
	24,750		5 per cent Cumulative Preference Stock		23,900	
			Ordinary Stock:			
	28,875		Paid – Interim Dividend of 1s 3*d* per £1 Stock	34,453		
	40,425		Proposed – Final Dividend of 1s 3*d* per £1 Stock	34,453		
	23,100		Proposed – Bonus of 9*d* per £1 Stock	20,672		
					89,578	
117,150						113,478
4,331						9,446
			Add:			
	101,683		Balance brought forward from 1950		106,014	
	—		*Less* Underprovision for Income Tax, 1951–52		12,500	
101,683						93,514
106,014			Balance carried forward per the Company's Balance Sheet			102,960
			Subsidiary:			
	843		Balance brought forward from 1950		5,346	
	4,493		*Add* Loss not dealt with in the Accounts of the Company		721	
(Dr.) 5,346						(Dr.) 6,067
£100,668			Balance carried forward per the Consolidated Balance Sheet			£96,893

JOSHUA TETLEY
Balance Sheet,

1950 £	Authorized £	CAPITAL AND RESERVES	Authorized £	Issued and converted into Stock £	£
		Capital:			
900,000	900,000	5 per cent Cumulative Preference Shares of £1 each	900,000	900,000	
1,050,000	1,250,000	Ordinary Shares of £1 each..	1,250,000	1,050,000	
1,950,000	2,150,000		£2,150,000		1,950,000
		Capital Reserves:			
	341,361	Share Premium Account – after deducting £13,760 Expenses of Issue of 4 per cent Mortgage Debenture Stock during year		327,601	
	65,847	Property Reserve – after deducting £1,560 Losses on Sale of Fixed Assets during year		64,287	
	203,937	Property Improvements Reserve – after deducting £27,863 Improvements written off during year		176,074	
611,145					567,962
		Revenue Reserves:			
	880,000	General Reserve (including £20,000 shown previously as Taxation General Reserve)		950,000	
	106,014	Profit and Loss Account		102,960	
986,014					1,052,960
3,547,159					3,570,922
170,000		INCOME TAX 1952–53			176,000
		DEBENTURES AND MORTGAGE (SECURED):			
	550,000	3½ per cent Mortgage Debenture Stock		550,000	
	—	4 per cent Mortgage Debenture Stock, 1976–86		800,000	
	50,000	Mortgage Loan		50,000	
600,000					1,400,000
		CURRENT LIABILITIES:			
	80,816	Sundry Depositors		82,414	
	—	Subsidiary Company – Current Account		806	
	515,453	Sundry Creditors and Accrued Charges		544,638	
	254,543	Current Taxation		351,615	
	—	Accrued Interest (Net) – 4 per cent Mortgage Debenture Stock		7,000	
	6,306	Accrued Dividend (Net) – Preference Stock		6,020	
	63,525	Proposed Dividend and Bonus (Net) – Ordinary Stock		55,125	
920,643					1,047,618
		PROVISION:			
101,427		Pensions in respect of past Service – after deduction of Premiums paid			89,796
		Note: The estimated commitments for Capital Expenditure not provided for in these Accounts amount to £56,500 (*£62,500*)			
£5,339,229					£6,284,336

JOSHUA TETLEY & SON LIMITED
Consolidated Balance

1950 £	Authorized £	CAPITAL AND RESERVES:	Authorized £	Issued and Converted into Stock £	£
		Capital of the Company:			
900,000	900,000	5 per cent Cumulative Preference Shares of £1 each	900,000	900,000	
1,050,000	1,250,000	Ordinary Shares of £1 each..	1,250,000	1,050,000	
1,950,000	2,150,000		£2,150,000		1,950,000
		Capital Reserves:			
	341,361	Share Premium Account – after deducting £13,760 Expenses of Issue of 4 per cent Mortgage Debenture Stock during year		327,601	
	65,887	Property Reserve – after deducting £1,019 Losses on Sale of Fixed Assets during year		64,868	
	203,937	Property Improvements Reserve – after deducting £27,863 Improvements written off during year		176,074	
	581	Excess Profits Tax Post-war Refund		581	
611,766					569,124
		Revenue Reserves:			
	885,150	General Reserve (including £20,000 shown previously as Taxation General Reserve)		955,150	
	100,668	Profit and Loss Account		96,893	
985,818					1,052,043
3,547,584					3,571,167
170,000		INCOME TAX 1952–53			176,000
		DEBENTURES AND MORTGAGE (SECURED):			
	550,000	3½ per cent Mortgage Debenture Stock		550,000	
	—	4 per cent Mortgage Debenture Stock, 1976–86		800,000	
	50,000	Mortgage Loan		50,000	
600,000					1,400,000
		CURRENT LIABILITIES:			
	80,816	Sundry Depositors		82,414	
	521,071	Sundry Creditors and Accrued Charges		555,285	
	255,360	Current Taxation		352,252	
	—	Accrued Interest (Net) – 4 per cent Mortgage Debenture Stock		7,000	
	6,306	Accrued Dividend (Net) – Preference Stock		6,020	
	63,525	Proposed Dividend and Bonus (Net) – Ordinary Stock		55,125	
927,078					1,058,096
		PROVISION:			
101,427		Pensions in respect of past Service – after deduction of Premiums paid ..			89,796
		Note: The estimated commitments for Capital Expenditure not provided for in these Accounts amount to £56,500 (*£62,500*).			
£5,346,089					£6,295,059

& SON LIMITED
September 30th, 1951

1950			Cost or Book Value	Accumulated Depreciation and Amounts Written Off	
£	£	FIXED ASSETS:	£	£	£
229,109		Brewery Land and Buildings – at Cost	475,805	250,319	225,486
3,350,826		Freehold and Long Leasehold Licensed and Unlicensed Property – at Cost ..	4,386,422	468,043	3,918,379
61,005		Short Leasehold Property – at Cost	80,399	16,483	63,916
		Fixed and Loose Plant and Machinery, Furniture and Fixtures, Casks, Cases, Motor Vehicles, etc.:			
87,791		At Book Value at September 30th, 1947, less subsequent sales	141,367	65,505	75,862
271,454		Additions since September 30th, 1947 – at Cost	517,216	175,084	342,132
4,000,185			5,601,209	975,434	4,625,775
		SUBSIDIARY COMPANY:			
	62,500	Shares and Debentures – at Cost less amounts written off		62,500	
	32,066	Loan Account		69,566	
94,566					132,066
		CURRENT ASSETS:			
	570,892	Stocks – as valued by the Company's Officials		754,685	
	494	Subsidiary Company – Current Account		—	
	389,665	Debtors, Loans and Rents Receivable (less Provision for Doubtful Debts) ..		428,991	
	15,852	Payments in Advance		19,229	
		Investments – at Cost			
		Quoted:			
		Trade (Market Value £2,690)	3,340		
		Government Securities (Market Value £142,002)	144,800		
		Unquoted:			
		Trade	100		
	148,240			148,240	
	119,335	Cash at Bank and in hand		175,350	
1,244,478					1,526,495

(Investments and Cash in hands of Debenture Stock Trustees and included above amount to £12,710 : £12,710)

C. H. TETLEY, *Director.*
R. F. TETLEY, *Director.*

£5,339,229	£6,284,336

(THE COMPANY) AND ITS SUBSIDIARY
Sheet, September 30th, 1951

1950			Cost or Book Value	Accumulated Depreciation and Amounts Written Off	
£	£	FIXED ASSETS:	£	£	£
229,109		Brewery Land and Buildings – at Cost	475,805	250,319	225,486
		Freehold and Long Leasehold Licensed and Unlicensed Property:			
3,350,826		At Cost	4,386,422	468,043	3,918,379
47,554		At Book Value at September 30th, 1947	50,092	2,500	47,592
61,005		Short Leasehold Property – at Cost	80,399	16,483	63,916
		Fixed and Loose Plant and Machinery, Furniture and Fixtures, Casks, Cases, Motor Vehicles, etc.:			
87,791		At Book Value at September 30th, 1947, less subsequent sales	141,367	65,505	75,862
274,864		At Cost	524,131	176,847	347,284
4,051,149			5,658,216	979,697	4,678,519
		CURRENT ASSETS:			
	608,779	Stocks – as valued by Officials of the Companies		830,359	
	399,323	Debtors, Loans and Rents Receivable (less Provision for Doubtful Debts) ..		439,995	
	16,524	Payments in Advance		19,779	
		Investments – at Cost			
		Quoted:			
		Trade (Market Value £2,690)	3,340		
		Government Securities (Market Value £142,502)	145,300		
		Unquoted:			
		Trade	100		
	148,740			148,740	
	121,574	Cash at Bank and in hand		177,667	
1,294,940					1,616,540

(Investments and Cash in hands of Debenture Stock Trustees and included above amount to £12,710 : £12,710)

£5,346,089	£6,295,059

REVIEWS

The Municipal Office Mechanized
by J. H. Burton, F.I.M.T.A., F.S.A.A., F.C.C.S., F.R.Econ.S.

(Gee & Co (Publishers) Ltd, London. 12s 6d net)

Mr. Burton has tried to show to what extent each department of a local authority can benefit from the use of mechanical office appliances. Since it is the finance department where mechanical equipment can be used most extensively, particular attention has been given to the needs of that department. Various mechanical aids, from simple 'engaged' indicators costing a few pounds to the more expensive electrically-operated punched-card machines are described, and their advantages are fully explained by the author, who has gained his knowledge from long practical experience.

There are brief descriptions of appliances that may be used in other departments of a local authority and a chapter is given to descriptions of various sorting systems and the equipment necessary for each.

Hotel Accounts
by T. J. Barrett, F.A.C.C.A.

(Gee & Co (Publishers) Ltd, London. 17s 6d net)

This new work, written by the secretary and chief accountant of a leading London hotel, assumes that the reader already has a working knowledge of book-keeping. The author's aim is to describe in sufficient detail a broad but comprehensive system of hotel accounting, capable of easy adaptation to meet particular circumstances and one which will ensure both speedy recording and the prevention of fraud without obtruding itself on the convenience of the guests. He describes, successively, the various tabular records and books of account and the production of the trading and profit and loss account and balance sheet and concludes with some helpful chapters on controls, both statistical and physical.

The text is well supplemented throughout by specimen forms and rulings and, altogether, Mr Barrett is to be congratulated in producing a manual which should be a valuable addition to the literature of hotel accounting and management.

Meetings of Private Companies (Second Edition)
by Peter E. Whitworth, B.A. Barrister-at-Law

(Jordan & Sons Ltd. London. 10s 6d net)

The first edition of this work appeared in 1938, and this new edition has been made necessary by the passing of the Companies Act, 1948. The law confers on private companies a number of advantages not enjoyed by other companies, but it is a difficult matter to extract from the Act what those advantages are, nor is it always immediately apparent which sections have no application to private companies. Yet there are many requirements with which even a private company must comply. Mr Whitworth in his book sets out to expound one branch – an important and little-understood branch, as he himself says – of the law so far as it concerns private companies, and does so with creditable lucidity.

Central and Local Government
by D. N. Chester

(Macmillan & Co Ltd, London. 30s net)

Local authorities since the war have been so overwhelmed with new regulations, powers and duties arising from the numerous acts of parliament, statutory instruments and official circulars that their relationships with the central government have undergone drastic changes in a short time.

The financial and administrative relations between central and local government form an important subject and it is surprising that literature on this theme is so scarce. Mr Chester's book is therefore an important one and it is obviously the result of much intensive research.

The control exercised by Whitehall over local authorities is examined and the author deplores the gradual change from a status of local autonomy to something approaching that of agency for the central government.

The last chapter refers to the report of the Local Government Manpower Committee, and two appendices give a very useful summary of present grants to local authorities and an outline of the general Exchequer contribution which was superseded in 1948.

Whitaker's Almanack 1952

(J. Whitaker & Sons Ltd, London. Library edition (leather binding) 30s net; complete edition (cloth cover) 15s net; shorter edition (paper cover) 7s 6d net)

Whitaker's has been at hand as an essential work of reference and *aide memoire* for more years than one cares to remember, and the 1952 edition makes history as the largest issue ever published. The publishers are to be congratulated, moreover, for their achievement in including a thirty-two page bound-in Election supplement in all editions.

To the wealth of general, official and statistical information on an immense variety of subjects which ensures an annual welcome for each succeeding issue, this year's almanack sees the return of two further pre-war features as well as several entirely new ones. The former are a section on professional fees, and details of the various licences administered by county and county borough councils. The latter include details of the party representation on local authorities and notes on the British Royal Houses.

SHORTER NOTICES

BUSINESS ACCOUNTS. Third Edition, by L. A. Terry, B.COM.(HONS.), and W. T. Smith, M.COM. (Sir Isaac Pitman & Sons Ltd. London. 12*s* 6*d* net.) This text-book, described by the authors as a course in book-keeping on modern lines, attempts to make the student appreciate the reason and purpose of business transactions and the methods of recording them. The text is well supplemented by theoretical and practical questions, and a number of progressive general exercises, as well as specimens of recent examination papers, are appended.

EXAMINATION NOTE BOOK FOR ACCOUNTANCY EXAMINEES, by The 'B.C.A.' Tutors. (Textbooks Ltd, London. 12*s* net.) Grouped under the headings of general accountancy, partnership law and accounts, limited company accounts, holding companies and consolidated accounts, executorship law and accounts, auditing and cost accounts, these notes form a frame-work for the student's own notes and also facilitate revision before examinations.

SHIPPING LAW, Second Edition, by Lord Chorley, M.A., Barrister-at-Law, and O. C. Giles, LL.M., Barrister-at-Law. (Sir Isaac Pitman & Sons Ltd, London. 30*s* net.) This second edition comes only four years after the first, but it has been largely revised as well as being brought up to date. The Merchant Shipping Act, 1894, is formidable in the extreme, if only because of its great length, and this book is intended to be an elementary text-book which shall guide students of commerce, rather than students of law, through the maze of shipping law. It is divided into three parts, dealing respectively with the ship, the running of the ship, and marine insurance.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

Blunson *v.* West Midlands Gas Board

In the High Court of Justice (Chancery Division)
December 17th, 1951
(Before Mr Justice DONOVAN)

Income-tax – Mills, factories or other similar premises – Whether entire gas-works within this description – Whether industrial buildings allowance available – Finance Act, 1937, *Section* 15 – *Income Tax Act,* 1945, *Sections* 2, 7 (3).

The Board owned and occupied a gas-works, and received the allowance under Section 15 of the Finance Act, 1937, for depreciation of 'mills, factories or other similar premises'. The Board claimed an allowance, under Section 2 of the Income Tax Act, 1945, in respect of industrial buildings, but the Inland Revenue contended that this allowance could not be given for years in question because the Board was receiving the allowance under the 1937 Act and that, therefore, the allowance under the 1945 Act was prohibited by Section 7 (3) of the latter.

The Board's premises included two booster houses, a gas water-house and a vertical retort-house, and the Special Commissioners decided that those four buildings alone answered the description of 'mills, factories or other similar premises', and that the Board was entitled to the industrial buildings allow-ance in respect of its other buildings which satisfied the conditions prescribed for that allowance. It was those four buildings which provided the measure of the allowance under the Act of 1937.

The Inland Revenue contended that all the build-ings constituting the gas-works were 'mills, factories or other similar premises', although certain gas holders on the other side of the road from the gas-works should be excluded by concession. The board contended that only the four buildings already mentioned were the premises in respect of which the allowance under the 1937 Act had been given. The Special Commissioners accepted the latter contention.

Held, that the case should be remitted to the Special Commissioners for them to decide (*a*) whether on a correct view of the law the whole of the buildings constituting the gas-works were 'mills, factories or other similar premises', (*b*) if not, to decide afresh which buildings were within that description.

Chibbett *v.* Harold Brockfield & Son Ltd

In the High Court of Justice (Chancery Division)
December 17th, 1951
(Before Mr Justice DONOVAN)

Income-tax – Builder's pool – Cessation of business – Building society released after cessation – Whether includible in receipts of last accounting period – Income Tax Act, 1918, *Schedule D, Case I.*

During the years 1934–39 the company carried on business as a builder, and made deposits with a building society in order to form a builder's pool for the purpose of financing the purchase of houses on the instalment plan. The company went into liquida-tion on November 28th, 1946, and its business ceased on that day. The deposits were released by the building society on May 8th, 1947. No valuation of deposits was made at the times of the sales of houses.

The Inland Revenue contended that the deposits should be brought into the receipts of the accounting period ended November 28th, 1946, and brought in at their full value. The Special Commissioners decided that the deposits were worth their face values during that period, but that they could not be brought into the computation of the company's profit for its last accounting period.

Held, that the Special Commissioners' decision was correct.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Standard Costs: A Case of Eggs

SIR, – Some accountants object to standard costing because it introduces notional elements into a (historically) factual system. There is no substance in this objection. A chemist might as well decry the use of catalysts.

Management exists to organize an optimum relationship between input and output. Counting up afterwards what is left is not enough. Accounting as activity proceeds is vital to the conception of management.

Here is an illustration from experience:

Given, fifty hens. Kept with reasonable efficiency, they should lay two dozen eggs per day, say 720 per month. Ignoring expenditure on the buildings and the plant, running costs in food and labour were £9 a month.

During the first month 240 eggs were laid. Accounts prepared in historical costing fashion showed

PRODUCTION ACCOUNT (Historical)

	£
Sales value: 240 at 5*s* dozen	5
Costs of food and labour	9
Loss	£4

But the picture on standard costing lines:

PRODUCTION ACCOUNT (Standard Costing)

	Units		*£ Values*		
	Eggs	*Food in oz.*	*Eggs*	*Costs*	*Profits*
Planned ..	720	600	15	9	6
Performed ..	240	594	5	9	4
Variance ..	480	6	10	–	10

showed the real loss to be £10. This is made of a £4 decline in resources (the historical loss) and a £6 loss through a failure in production. The failure was traced to wrong feeding.

The £4 loss was patently obvious from counting the cash and stocks, but it took standard costing to reveal the £6 loss.

Yours faithfully,
Dublin. A. PAKENHAM-WALSH.

Holiday Pay: Deduction under P.A.Y.E.

SIR, – I submit for consideration by your readers the question of the extra heavy deductions for tax under P.A.Y.E. when staff go on holiday.

Take the case of a person entitled to a fortnight's holiday, customarily paid three weeks' money on the pay-day before going on leave. Instead of a deduction equal to three times the usual amount of tax, an exorbitant sum more in the region of six or seven times is taken, with the result that the employee gets little more than two weeks' net wages. The gross three weeks' wages are reckoned as earned in the particular week when paid and carry tax on that basis, although, in fact, they are for three separate weeks.

I understand that tax regulations entitle employers to do this; yet everyone does not, and, therefore, it would seem not to be a binding procedure, but an optional one. How, then, does this method become necessary at all? Where is the State need for it? If the difference can be repaid to the worker upon his return from holiday, why in the first place should the deduction have been any more than the amount of tax that would accrue in the ordinary way over the period in question?

This may mean everything between being able to have a little holiday or none. More – not less – money is then required.

The present form of permissive regulations and tax tables, as the authority for this practice, seem hardly good enough; a much older feature of our Constitution being that wages should be free from undue stoppages, and this is surely a particularly appropriate point for official rectification.

Yours faithfully,
EQUITY.

Distribution of Capital Profits

SIR, – May I refer to the article on this subject by Mr Sidney I. Simon in your issue of November 17th, 1951, and invite your readers' comments on the availability of capital reserves for the payment of dividends. In principle, a capital reserve can be used provided that:

(1) the amount to the credit of the reserve is realized; and
(2) there is an overall surplus on a valuation of the assets at the date of the dividends.

Thus, items credited to the reserve must distinguish between those realized and those unrealized. In addition, these details must be maintained from the inception of the reserve in order that, at the date of dividends, its constitution between realized and unrealized credits are known. Over a number of years the source of the entries may become obscured. As the payment of a dividend from this reserve would be without deduction of tax, how is it possible to prove (if challenged) that over a period of years the relative credits have all been realized? It is also common practice to credit the surplus on the realization of assets to general reserve (in order to preserve their freedom of use). Are these credits also available for a capital dividend? What are the steps both legal and accounting to effectively pay a dividend out of capital?

Yours faithfully,
L. C. W.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

TAXATION AND RESEARCH COMMITTEE

The sixty-second meeting of the Taxation and Research Committee was held at the Institute on Thursday, December 13th, 1951, at 2 p.m.

Present: Mr W. W. Fea (in the chair); Messrs K. W. Bevan, T. Fleming Birch, R. P. Brown, J. B. Burnie, W. C. Campbell, P. F. Carpenter, F. Carruthers, J. Cartner, D. A. Clarke, J. Clayton, R. W. Cox, E. H. Davison, W. G. Densem, R. B. Dixon, W. P. Elliott, O.B.E., F. J. Eves, E. S. Foden, F. M. Gilliat, G. G. G. Goult, G. S. Hamilton, S. C. Hand, E. A. Harris, N. B. Hart, O.B.E., T.D., K. Johnson, E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., J. W. G. Mitchell, G. P. Morgan-Jones, H. Norris, R. J. Ogle, A. H. Proud, P. M. Rees, M.C., P. V. Roberts, C. N. Storey, H. F. Strachan, W. F. Tidswell, C. P. Turner, R. Walton, A. Whittaker and G. H. Yarnell, with Mr F. M. Wilkinson, an Assistant Secretary of the Institute, and Mr K. H. Saunderson, Assistant to the Taxation and Research Committee.

SPEECH BY THE PRESIDENT OF THE INSTITUTE

The President of the Institute, Mr Charles W. Boyce, C.B.E., attended at the opening of the meeting, the first of the committee's tenth year of office. In the course of a short speech the President said:

'It is a great pleasure to me to follow the practice of my predecessors and attend the first meeting of your committee at the commencement of another year of your work, particularly as it gives me an opportunity of meeting many members of the Institute with whom I have not previously come into contact.

'On October the 1st last the Taxation and Research Committee entered its tenth year, and I feel sure that the committee can look back on the nine years which have passed as years of solid achievement and worth-while effort.'

Published Memoranda

'The memoranda which the Council has been able to issue as the result of the work of your committee have done much, not only to enhance the prestige of the Institute, but have also been of inestimable value to the accountancy profession as a whole and to the world of commerce.

'An important feature of all the documents submitted by the committee is that they do not represent the views of only one section of the members of the Institute. On every problem under consideration the views are sought of members in all parts of England and Wales and of non-practising members as well as practising members, thus ensuring that all aspects of the matter under review receive the fullest possible consideration.

'The members of the regional Taxation and Research Committees must not be disappointed or disheartened if some of the views expressed by them do not find their way into the final document. They can rest assured that those views have been fully considered by the main committee before a decision is reached on the wording of each memorandum.

'As a member of one of the regional committees, I would like to say that we regard it as a great privilege that we have the opportunity of expressing our views and of those views receiving consideration before a memorandum is submitted to the Council for approval.

'The year which has just ended has seen the completion of many important matters, and those which have reached the stage of publication include the "Notes on the Town and Country Planning Act, 1947". Then we have the "Notes on statistics relating to income of and capital employed by companies", a pamphlet of considerable value, not only to our own members but also to directors and secretaries of many companies who desire guidance on the best means of bringing home to the shareholders how the cake is divided and in particular what a large part is absorbed by taxation and how little is allocated as reward on the *real* capital invested in the business.

'The recently issued pamphlet of "Notes on the allocation of expense" is an interesting document. When I read it I wondered to what extent it would appeal to our members, but I am told by the Institute inquiry office that there has been a considerable demand for this publication. Then we have the taxation memoranda. The memorandum for the Tucker Committee on Taxation Treatment of Provisions for Retirement is intensely interesting and has a strong appeal to professional men. We await the report of this Tucker Committee with more than usual interest. The other taxation matter was a sort of hardy annual, the memorandum on the current year's Finance Bill. Perhaps it would be more tactful if I did not express my personal views on one or two of the clauses in that Bill in view of the fact that they have now become the law of the land.

'The published documents do not, however, cover the full activities of your committee. Many other matters have been under consideration which have not yet come to maturity.'

Memorandum for the Royal Commission

'Finally, we come to the memorandum for the Royal Commission on Taxation of Profits and Income. This, I think, must be regarded as the biggest job which the committee has yet tackled. The memorandum on Part A has already been submitted to the Royal Commission and the memorandum on Part B is now approaching completion, although some of the more important matters are still giving trouble to the drafting sub-committee.

'The wide range of heads and subheads under which the Royal Commission desired the submission of evidence has involved the expenditure of an enormous amount of time and thought on the part of all concerned in the preparation of the documents and the thanks of the Council are due to everyone, whether on your committee or on the regional committees for the part they have played and are still playing in the preparation of such vitally important documents.'

Practising and Non-practising Members: Representation on Committee

'In August 1950 the Taxation and Research Committee decided that the ultimate aim should be for the representation of each district society to become 50 per cent practising members and 50 per cent non-practising members, but without any firm rule in the constitution that the district societies should be obliged to appoint in equal numbers from the two branches. Of the 30 members appointed by the district societies for the current year, 19 are in practice and 11 are not in practice but, taking the overall membership of the committee (including the 6 Council nominees and the 12 co-opted members) there are 25 practising members and 23 members not in practice, so that the committee as a whole is now almost equally divided.'

Drafting Sub-Committees

'Many members of the Taxation and Research Committee are members of drafting sub-committees and they will appreciate the amount of time and effort involved. Some of the members who have recently joined the committee have

not yet been called upon to undertake detailed work on drafting sub-committees and they might possibly imagine that they have taken on a light task in becoming members of the committee. I am afraid they will be disillusioned shortly. As will be seen from the programme of work in hand the subjects with which the committee deals tend to become more difficult and extensive with the natural consequence that the work of the drafting sub-committees takes more and more time.'

Staff

'I should like to take this opportunity of saying a word about Mr K. H. Saunderson, who was appointed a few months ago as Assistant to the Taxation and Research Committee to undertake reference work and drafting for the committee and its sub-committees. He is a valuable acquisition, and I know that Mr Wilkinson would have found it quite impossible to keep pace with the present volume of work without his assistance.

'The Committee is to be congratulated on having Mr Wilkinson to act as its secretary. Only those who are in regular contact with the Institute, as I am in these days, can fully appreciate the enormous amount of work which Mr Wilkinson takes on his shoulders and what he does not know about writing reports and minutes is not worth knowing. I am, and I am sure the Committee must be, grateful to him for his help always so willingly given.

'I know you want to get on with your job so I will not detain you any longer except to congratulate your late chairman, Mr Campbell, on the achievements of the committee during his year of office and to express to your new chairman, Mr Fea, my congratulations on his appointment and the hope that under his able guidance the committee may further enhance its reputation for really worthwhile effort.

'Your programme is a full one and you have my sincere good wishes for a successful year.'

The vice-chairman, Mr G. G. G. Goult, proposed a vote of thanks to the President, which was carried with acclamation.

Membership

It was agreed that letters of appreciation of their services be sent to the following, who retired from membership of the committee on September 30th, 1951: Mr E. P. Broome (Nottingham) 1944–51; Mr T. A. Lacy Thompson, D.S.O., M.C. (Northern) 1949–51; Mr L. W. Robson (co-opted) 1945–51; Mr S. A. Spofforth (South Eastern) 1946–51; Mr C. M. Strachan, O.B.E. (Council nominee) 1945–51; Mr H. Sutherst (Manchester) 1946–51.

The committee received with great regret the report of the death of Mr Cyril Watts, who retired from membership of the committee on September 30th, 1951, after being a member for the whole of the nine years since the committee was first formed.

Standing Sub-Committees

Reports, as under, were received and discussed:

- Cost Accounting Sub-Committee – Mr Davison (including report of the issue by the Council of the pamphlet of 'Notes on the allocation of expense').
- General Advisory Sub-Committee – Mr Fleming Birch.
- Taxation Sub-Committee – Mr Gilliat.

Ad Hoc Sub-Committees

The chairmen of two special sub-committees reported progress.

Next Meeting

The next meeting of the committee was fixed provisionally for Thursday, February 21st, 1952.

NOTTINGHAM SOCIETY OF CHARTERED ACCOUNTANTS

ANNUAL DINNER

The annual dinner of the Nottingham Society of Chartered Accountants was held at Nottingham University on Friday, January 11th, 1952. The President of the Society, Mr E. P. Broome, F.C.A., was in the chair. Some 270 members and guests attended and were received by Mr Broome and by Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among the guests were Councillor S. Hobson, Sheriff of Nottingham; Mr Martin Redmayne, D.S.O., J.P., M.P.; The Venerable J. H. L. Phillips, M.A., Archdeacon of Nottingham; and

Messrs J. G. S. Abbott (*H.M. Senior Inspector of Taxes*); L. R. Allen (*President, Nottingham Chamber of Commerce*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); H. Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); T. N. Cartwright, D.S.C., J.P. (*President, Nottingham, Derby and Lincoln Architectural Society*); S. W. Cornwell, F.C.A. (*President, Bristol and West of England Society of Chartered Accountants*).

Messrs W. Foster (*President, Nottingham Incorporated Law Society*); C. M. Foxon, F.S.A.A. (*Hon. Secretary, Incorporated Accountants' District Society of Nottingham*); W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); B. L. Hallward, M.A. (*Vice-Chancellor of Nottingham University*); K. G. M. Harding, B.A., J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*).

Mr T. J. Owen (*Town Clerk of Nottingham*); Professor R. Peers, O.B.E., M.C., M.A., J.P. (*Deputy Vice-Chancellor of Nottingham University*); Messrs H. Pickbourne, B.A. (*Registrar, Nottingham University*); L. B. Scott (*President, Nottingham Institute of Bankers*); E. A. Silverberg (*Chairman, Nottingham Stock Exchange*); P. W. Skinner, F.S.A.A. (*President, Incorporated Accountants' District Society, Nottingham, Derby and Lincoln*).

Replying to the toast of 'The Institute of Chartered Accountants in England and Wales', proposed by Mr Martin Redmayne, D.S.O., J.P., M.P., Mr C. W. Boyce, C.B.E., F.C.A., President of the Institute, described the past year as one of exceptional activity for the Council.

Evidence for the Royal Commission

All the committees and the Taxation and Research Committee had been called upon for viewpoints on many matters, he continued, and most important had been the assimilation of evidence for submission to the Royal Commission on the Taxation of Profits and Income.

Time expended by the Taxation and Research Committee alone was truly colossal and the corresponding regional committees had all been involved in it, and, declared Mr Boyce:

'It is a great tribute to the public spirit displayed by members of the Institute that so many are prepared to give their time and the benefit of their experience in a cause which has as its object the well-being of the community at large.'

For some time the Council's evidence dealing with the general social and economic questions had been in the Commission's hands. Evidence about the taxation problem was now almost ready, too. When it had been presented to the Commission, it was proposed to arrange for the publication of the whole of the evidence in *The Accountant*; this would not be deferred until after oral evidence by the Institute's representatives.

Possible Modification of Accounting Principles

There had been a natural inclination, said Mr Boyce, to place particular emphasis on those methods of computing business profits for taxation purposes which were deemed to penalize industry, and which had the effect of raising assessments on profits in excess of those ascertained under normal accounting procedure.

'Not the least of these problems is the question of rising prices which has its repercussions not only on the ascertainment of profits for taxation purposes, but also in the view of some people, in a possible modification of the accepted accounting principles under which accounts have been prepared and presented. This is a matter to which the Council is giving its earnest consideration.'

Must Sustain National Income

Quoting from the Commission's terms of reference, Mr Boyce said it seemed that since its recommendations must sustain total national income, any alleviation of taxation on business profits could only be achieved by other adjustments. According to Mr Churchill's recent broadcast, unpleasant things were in store for some time, but

'it was time the Government grasped the nettle and was not afraid to take the nation into its confidence and warn it in no uncertain terms of the difficulties which lie ahead'.

Students' Residential Courses

Turning to education, Mr Boyce hoped for more and more usage of the university scheme – students would never regret a degree. He felt now that articled clerks in cities were well catered for, but those living far from a society's headquarters had still considerable difficulty. Residential courses were a partial solution, and Manchester and Liverpool, Birmingham, and East Anglia had run them with marked success.

'I suggest that Nottingham might explore this avenue in conjunction with the committees of neighbouring societies such as Leicester and Sheffield. After visiting a residential course I am convinced it is one step towards helping the "distant" student.'

Training under Articles

Referring to the Ministry of Education's attitude towards the principle of articled training, Mr Boyce said:

'It is a great relief to know that the system of training under articles which has stood the test of time is not likely to be disturbed. At all costs the standard of education and training of new entrants into the Institute ranks must be maintained and not suffer dilution.'

The toast of 'The City of Nottingham' was proposed by Mr H. R. Hilton, F.C.A., and Councillor S. Hobson, Sheriff of Nottingham, replied. Mr C. W. Bingham, F.C.A., proposed the toast of 'The Guests' which was replied to by The Venerable J. H. L. Phillips, M.A., Archdeacon of Nottingham. The toast of 'The Chairman' was proposed by Mr W. L. Dunn, F.C.A.

THE INCORPORATED ACCOUNTANTS' DISTRICT SOCIETY OF SUSSEX

ANNUAL DINNER AT BRIGHTON

The annual dinner of the Incorporated Accountants' District Society of Sussex was held at the Royal Pavilion, Brighton on Friday, January 11th, with Mr F. V. Arnold, F.S.A.A., President of the Society in the chair. Members and guests numbering more than 150 were received by Mr Arnold and by Mr C. Percy Barrowcliff, F.S.A.A., President of the Society of Incorporated Accountants and Auditors.

Among the guests were a former Chancellor of the Exchequer, the Rt. Hon. Sir John Anderson, G.C.B., Sir Leslie Bowker, O.B.E., M.C., Remembrancer of the City of London, and

Councillor A. E. Brocke (*Mayor of Hove*); Sir Rowland Burrows, K.C.; Messrs J. R. Burton (*Valuation Officer, Inland Revenue – Rating*); V. R. Chennell, F.A.C.C.A. (*President, South Eastern Society, Association of Certified and Corporate Accountants*); I. A. F. Craig, O.B.E. (*Secretary, Society of Incorporated Accountants and Auditors*); A. H. French (*Chairman, Sussex Branch, Royal Institution of Chartered Surveyors*).

Mr J. A. Jackson, F.S.A.A. (*Chairman, London District Society of Incorporated Accountants*); Councillor P. F. Friend-James, O.B.E. (*President, The Brighton and Hove Chamber of Commerce*); Messrs L. A. Jarvis, A.S.A.A. (*President, South of England District Society of Incorporated Accountants*); Arthur Jolly, J.P., F.C.A. (*President, South Eastern Society of Chartered Accountants*); The Rev. H. J. Kingston; Messrs R. Lee (*President, Institute of Bankers, Brighton District*); A. W. McCully (*President, Sussex Law Society*).

Messrs R. C. Pascoe, J.P.; E. C. Sherwood (*Official Receiver*); Alderman Eric Simms, J.P. (*Mayor of Brighton*); Dr L. A. Snowball (*President, Sussex Branch of the B.M.A.*); Messrs T. H. Tosh (*H.M. Inspector of Taxes*); E. Infield Willis, B.A., J.P. (*The Southern Publishing Co*); W. T. Curtis-Willson, M.B.E., J.P. (*Managing Director, Brighton Herald Ltd*).

The Accountant a Realist

Proposing the toast of 'The Society of Incorporated Accountants and Auditors and the Accountancy Profession', the Rt. Hon. Sir John Anderson, G.C.B., said that he was in the happy position of an assured favourable reception to his speech for, after all, he was proposing the health and prosperity of the profession

to which the majority of those present belonged. (Laughter.)

Sir John thought that, in these days of current difficulties and of complicated economic situations, accountants performed a great service to the community; for through their knowledge the ordinary man was better able to understand the complicated and confusing matters which surround, and which sometimes almost submerge, even the most simple of businesses. The accountant has to be a realist and that is a quality that is most desirable in the world today.

Failure of Accountancy Conventions

Mr C. Percy Barrowcliff, F.S.A.A., in responding to the toast said that it was a source of infinite pleasure to the Council, as well as to himself personally, to see such progress being made in Sussex. Much credit for this achievement is due, he considered, to the local President. (Hear, hear.)

As many present knew, proceeded Mr Barrowcliff, the Council of the Society is gravely concerned about the failure of the existing accountancy conventions to reflect in accounts the effect of the rapidly increasing price level. The Council has therefore set up a special committee which includes four leading representatives from trade, commerce, finance and economics, to inquire into the position.

Mr Barrowcliff said that this committee is already at work and it is hoped that it will soon reach some definite conclusions. He personally considered that the profession's existing conventions are, in present conditions, overstating profits and failing to protect business capital.

Sense of Value of Money Lost?

Taxation, he continued, is based on profit, and is already too heavy without being based upon some fictitious figure of profit. One of the most striking changes that was taking place was the disappearing sense of the value of money. During the past ten or twelve years, expenditure has been on such a colossal scale that people have probably lost their sense of proportion and have forgotten that expenditure must, in the long run, come out of income.

One thing does seem clear, he said, and that is that the Government must set the right example. He considered that in recent years there had been too much expenditure by, or under the control of, the Government and he hoped that the Administration now would not hesitate to deal drastically with the great problem of over-spending.

The toast of 'Our Guests' was proposed by Mr E. Webb, F.S.A.A., Vice-President of the District Society. After recalling some of the distinctions gained by many of the principal guests, Mr Webb added that whatever may be the status of those present they should try during the course of their life-span to do good for the community. Replying to the toast, Sir Leslie Bowker, O.B.E., M.C., humorously asserted that he was regarded, when it comes to speaking at dinner in the City, as an 'iron ration' which, as any good soldier will know, is only to be touched in the case of extreme emergency. (Laughter.)

A Lusty Infant

The toast of 'The Incorporated Accountants' District Society of Sussex' was proposed by Mr R. C. Pascoe, J.P., who said that there could be no doubt that the district society, formed less than two years ago, was a lusty infant. (Hear, hear.) He said that accountants always made him feel inferior but, up to the time of speaking, he had not had one before him in the dock. He had no doubt that if such an occasion should arise he would lose his complex and perhaps the tables would be turned. (Laughter.)

He considered that the local society used its considerable influence to the best advantage, and that its fine example might well be followed by others.

In reply, Mr F. V. Arnold, F.S.A.A., said that accountants, in Sussex at any rate, had the happiest of relations with their mutual colleagues and he could see no reason why this should not continue.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on January 2nd, 1952, who completed their Fellowship or Membership before January 15th, 1952.

Associates elected Fellows

Browell, Ernest William; 1930, A.C.A.; (Wm. J. Jennings, Warner & Co), Central House, 75 New Street, Birmingham, 2.

Cantor, Cyril; 1937, A.C.A.; (Mordant, Jarvis, Garvin & Co), Ling House, 10–13 Dominion Street, South Place, London, EC2.

Crouch, Norman Frederick; 1937, A.C.A.; (Crouch, Lucraft & Co), 17A Queen's Road, Brighton, and at Battle and Exeter.

Culling, Charles Richards; 1925, A.C.A.; (*Price Waterhouse & Co), 3 Frederick's Place, Old Jewry, London, EC2; (for other towns see *Price Waterhouse & Co).

Farraday, Jack Mansergh; 1942, A.C.A.; (Horsfield & Smith), Belgrave Place, 8 Manchester Road, Bury, and at Manchester.

Goodrich, Maurice Phillip; 1946, A.C.A.; (M. P. Goodrich & Co), 1 Hatton Garden, London, EC1.

Harbottle, Albert Ernest Miller; 1940, A.C.A.; (Grace, Darbyshire & Todd), 19 Whiteladies Road, Bristol, 8.

Hill, George Edward, T.D.; 1936, A.C.A.; (Wm. J. Jennings, Warner & Co), Central House, 75 New Street, Birmingham, 2.

Howell, Arthur Walter Ackerman; 1932, A.C.A.; 102 London Street, Reading.

Jones, Donald Miller; 1933, A.C.A.; (D. M. Jones & Co), Seaton's Buildings, Jameson Street, Hull, and (Gale & Hutchinson), Royal Insurance Buildings, Bowlalley Lane, Hull.

Lewin, Owen Michael, M.B.E., R.D.; 1936, A.C.A.; (*Monkhouse Stoneham & Co), 695 Salisbury House, London Wall, London, EC2.

Major, Gordon Stephen, T.D., B.COM.; 1939, A.C.A.; (*Major & Co), 89 Cornwall Street, Birmingham, 3.

Murtland, Thomas Bernard; 1931, A.C.A.; (Thomas Coombs & Son), Oxford Chambers, Victoria Square, Leeds, 1, and (A. McCarmick & Co), 8 East Parade, Leeds, 1.

Passmore, Richard Harry; 1939, A.C.A.; (*Bishop, Fleming

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

& Co), Strand Chambers, Torquay, and at Dartmouth and Paignton.
Raphael, Howard Oscar; 1940, A.C.A.; (Howard Raphael & Co), 7 Vigo Street, Regent Street, London, W1.
Routledge, William Wake; 1924, A.C.A.; (Armstrong, Routledge & Co), City Chambers, 57 English Street, Carlisle.
Rowell, Alfred Leslie, D.S.O.; 1939, A.C.A.; (Ware, Ward & Co), 7 Unity Street, College Green, Bristol, 1; (for other towns see Ware, Ward & Co).
Schoon, James; 1933, A.C.A.; 9 Leopold Grove, Blackpool.
Smith, David Russell Bedford, M.B.E.; 1940, A.C.A.; (*Tansley Witt & Co), 22–24 Ely Place, London, EC1.
Whitehead, Peter Archibald; 1936, A.C.A.; (*Major & Co), 89 Cornwall Street, Birmingham, 3.

(Not in England or Wales)

Bell, Patrick; 1926, A.C.A.; (Bell & Co), Barclays Bank Buildings, Donald Avenue, (P.O. Box 21), Nakuru, Kenya.
Smailes, John; 1931, A.C.A.; (*Ford, Rhodes, Parks & Co), Tower House, Chowringhee Square, Calcutta, and at Bombay, Chittagong, Karachi and Mathurai.
Sullivan, Horace Keith Lyon; 1926, A.C.A.; (*Peat, Marwick, Mitchell & Co), Edificio Mariscal, Av. Hidalgo 5, Mexico, D.F.

Admitted as Associate
(Not in Practice)

Gardener, William Kenneth, B.A.(COM.); with Pinkney, Keith Gibbs & Co, 56A High Street, Uxbridge, Middlesex.

Colliery Compensation Tribunal

Sir Harold Howitt Appointed Chairman

Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., is the chairman of a tribunal of four which has been appointed by colliery owners in North Derbyshire to apportion the £13,414,000 awarded as compensation to the nationalized collieries of the district.

Personal

Mr Harold T. Hooley, Incorporated Accountant, Nottingham, has taken into partnership Mr J. A. Macklin, Mr T. R. Oliver, A.S.A.A., Miss A. C. Sheppard, A.S.A.A., and Mr F. Banks. The practice will be continued under the firm name of Harold T. Hooley.

Messrs Handley, Wilde & Charlton, Incorporated Accountants, of Bank of England Chambers, Tib Lane, Cross Street, Manchester, 2, announce that Mr A. Forrester, A.S.A.A., has been admitted a partner as from January 1st, 1952. The practice will be carried on from the same address and the style of the firm remains unchanged.

Professional Notes

Mr Sidney Jackson, B.COM., F.C.A., a partner in the firm of Whitehill, Marsh, Jackson & Co, Chartered Accountants, of London, Cardiff and Birmingham, has been appointed a member of the Stevenage Development Corporation.

Mr T. E. Whiteside, A.C.A., has been appointed secretary of the British Cast Iron Research Association as from January 1st, 1952.

Missionary Appointment in West Indies for Chartered Accountant

A chartered accountant who was formerly a member of the staff of Price Waterhouse & Co and who has since entered the ministry, the Reverend J. Redmayne, O.B.E., A.C.A., is sailing shortly with his wife and three children to the West Indies, where he will take up a missionary appointment as Rector of Mandeville, Jamaica.

Mr Redmayne was admitted an Associate of the Institute in 1936. He served in the army throughout the war, rising to the rank of lieut.-colonel, and was mentioned in despatches. He was awarded the O.B.E. in 1944.

After his release from the Forces, Mr Redmayne returned to the profession until 1947, when he entered a theological college. He was ordained two years later and became Curate of Esher, Surrey, from where he now travels to his new appointment.

Actuaries' Investment Index

The following table is a brief extract from the latest figures furnished to subscribers to the Actuaries' Investment Index, which is undertaken jointly by the Institute of Actuaries and by the Faculty of Actuaries in Scotland:

Class of Security	No. of Securities	Price Indexes (Dec. 31st, 1938=100) Dec. 28th, 1949	Dec. 27th, 1950	Oct. 30th, 1951	Nov. 27th, 1951	Dec. 27th, 1951
British Government 2½ per cent Consols	1	100·0	100·7	92·8	89·1	87·2
Home Corporations	4	96·8	99·3	89·9	87·1	82·6
Investment trust debentures..	4	95·0	97·6	93·8	89·2	85·7
Industrial debentures:						
Productive, distributive and miscellaneous	20	100·2	101·0	94·7	91·1	87·4
Investment trust preference shares	8	94·6	98·0	92·0	89·9	83·3
Industrial preference shares:						
Productive, distributive and miscellaneous	65	100·1	103·9	98·2	94·4	91·6
Industrial ordinary shares:						
Productive	39	127·7	141·4	168·9	155·5	149·7
Distributive..	24	168·4	184·6	214·9	196·5	193·1
Miscellaneous	39	123·4	121·8	131·1	120·9	119·0
All classes of industrial ordinary shares combined ..	102	132·2	140·6	160·5	147·6	144·0
Ordinary shares:						
Banks and discount companies	10	100·9	102·8	101·1	94·6	91·1
Insurance companies ..	10	104·1	115·6	132·2	119·1	118·3
Investment trust companies	9	113·0	138·5	164·7	162·4	151·0

Construction: Geometric average, accrued interest in fixed interest securities and bonus issues allowed for.
'Productive': Aircraft, Building, Cotton, Electrical Manufacturing, etc.
'Distributive': Shipping. Stores and Catering.
'Miscellaneous': Companies not included under any other heading.

War Damage Payments

COMMISSION'S WORK IN 1951

The War Damage Commission paid out £72 million during 1951, compared with £92 million in 1950 and £105 million in 1949. The average weekly rate of payments in the last quarter of 1951 was £1,240,000.

The Commission paid 181,000 'cost of works' claims for repairs during the year, and made 40,000 payments on account. The amount involved was £62 million of which £60 million was paid to private owners and the remainder to local and other public authorities. About three-fifths of this sum was for the repair and rebuilding of houses.

Other principal items were: commercial buildings, £6½ million; factories, £7 million; shops, £2¼ million; churches, £2¼ million; while value payments for total loss properties amounted to £10 million, of which £3¼ million related to houses. Greater London's share of the total was £50 million.

Total war damage payments by the Commission now amount to nearly £1,020 million in 4,373,000 separate payments. Contributions by property owners during and after the war amounted to £198 million.

Time-changes in the Mortality Rate

A paper entitled 'Time-changes in the mortality rate: an experimental formula', by Mr L. G. K. Starke, B.A., F.I.A., will be read at an ordinary general meeting of The Institute of Actuaries to be held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, on Monday, January 28th next.

Chartered Accountants' Hockey Club

A match between members and articled clerks has been arranged and will be played at the Purley Cricket Club Ground on Wednesday, February 6th; bully-off at 2.30 p.m.

On Wednesday, March 5th, the Chartered Accountants' XI will play the Stock Exchange XI at Richmond Cricket Club Ground, Old Deer Park, Richmond.

Firm's Annual Dinner and Dance

The partners of Messrs Carter & Co, Chartered Accountants, of Birmingham, were hosts to a company of about a hundred at a recent dinner and dance given to the staff and their friends at the Imperial Hotel, Birmingham. Mr E. P. Q. Carter, F.C.A., the senior partner, presided and responded to the toast of 'The Firm' proposed by Mr A. J. Pegler.

Somerset House, London

CHANGE OF TELEPHONE NUMBER

The telephone number of Somerset House (formerly Temple Bar 3540 and 5432) has now been changed to Temple Bar 2407. This covers the following departments: Inland Revenue; Board of Trade (Companies Registration Office and the Registry of Business Names); Principal Probate Registry; Royal Commission on Awards to Inventors; General Register Office.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JANUARY 20TH, 1877

From a 'Note in Passing'

The Theory and Practice of Accountancy

Referring to a paragraph which appeared in this journal on the 6th instant, a correspondent, to whose opinion we attach considerable value, writes as follows: 'I see a correspondent wants to purchase a work on the theory and practice of accountancy. I recollect very well one of the first accountants of the day saying to me some twenty years ago that it took a lifetime to make an accountant. My experience confirms the truth of this remark. In fact, after being in the profession about a quarter of a century, one begins to realise correctly one's own ignorance in those branches of knowledge so necessary for an accountant. Such a work as your correspondent seeks, he will, I think, look for in vain, until, perhaps, the life of some eminent accountant has been closed, and his experience committed to paper. My experience of young accountants is, that they are too young to learn, perhaps from having been advised that they can never be too old to learn. The only way to acquire a thorough knowledge of the business is by close application in a good office.'

The Accountant

ESTABLISHED 1874

JANUARY 26TH, 1952 VOL. CXXVI NO. 4023

CONTENTS

THE FOREIGN EXCHANGE MARKET

THE opening of the foreign exchange market on December 17th last was hailed with enthusiasm both in this country and in America, even though exchange control remains. It was, indeed, an event of considerable importance and marks a stage towards the ultimate aim of complete freedom in foreign exchange dealings. The move has been welcomed in Britain because it will help to re-establish London as the centre for foreign exchange dealings. The approval given to it in the United States is largely because of the greater freedom it brings to foreign exchange transactions – an ideal dear to the heart of the Americans, who have no exchange control.

This move has been made after more than twelve years of rigid control. At the outbreak of the war all dealings in foreign currencies came within the control of the Bank of England, acting as custodian of the Exchange Equalization Account. The public thereafter satisfied their requirements for foreign exchange mainly through the commercial banks. But these latter institutions acted only as agents for the exchange control authorities, and they worked on a commission basis. They were not allowed to hold foreign exchange and they had to operate solely at uniform rates fixed by the Bank of England. The position has been so far freed that from December 17th authorized banks can operate on their own account, both in the spot and forward markets. They are no longer obliged to buy and sell at rates fixed for them by the Bank, and the only important limitation still imposed relates to the spot market, in which they must operate within a new and wider range of official prices.

In the following paragraphs an attempt is made to discuss these changes in somewhat greater detail and to describe the happenings during the first weeks after the reopening of the exchange.

Before the war, there were more than thirty foreign exchange brokers operating in the City of London. As a result of the exchange control imposed in September 1939, this number shrank considerably; many brokers were enlisted by the Bank to assist in foreign exchange work. The original brokers made their living by arbitrage and similar transactions, and also on commission. Their skill was renowned and their oversea earnings helped Britain's invisible exports. Today, only four firms are operating in this way. The pressure of work on these has naturally been very great. Reports seem to indicate, however, that the market is quickly getting into its stride and is already handling a substantial volume of business.

The main change in the spot market which this new freedom has brought is a wider range between the official buying and selling quotations for a number of currencies. Four currencies are now free: the United States and Canadian dollars and Swiss and French francs. These currencies, together with those of the three Scandinavian countries, have provided the largest field for exchange dealings. Within the widened official range, authorized banks are allowed to transact business on their own account. The International Monetary Fund has laid down limits between which transactions may take place, and the range available to dealers and banks in the currencies specified above approximates to these limits. It has been reported that successful arbitrage transactions operated by London dealers have taken place between the financial centres of Switzerland, Canada and U.S.A. Moreover, there has been a brisk demand, on commerical account, for United States dollars, particularly by the oil companies. This has tended to drive the dollar rate to the lowest limit at which dealings may take place. The new arrangements provide that the Bank of England, acting for the Exchange Equalization Account, must be ready to do business at either end of the range; this ensures that dealings will not take place outside these limits. No recourse to the Bank was, however, necessary during the first two or three weeks of the operations. Banks may use their powers in the spot market to assist them in forward dealings; the normal hedging procedure will be followed in such cases. Thus, if an authorized bank sells Canadian dollars to a British importer of goods from Canada for delivery in three months' time, the bank may hedge by buying forward dollars either in Montreal or London, or by buying spot dollars in the foreign exchange market.

Perhaps the most important change brought about by the reopening of the market has come in forward exchange dealings. In one sense, the new fiscal policy adopted by H.M. Government has made it desirable that there should be a relaxation in foreign exchange control. It would be difficult to administer a system of rigid external rates now that the more flexible domestic fiscal policy tends to cause frequent fluctuations in the cost of finance required for exchange operations. Moreover, under the rigid control exercised prior to December 17th last, the cheap facilities provided by the Bank of England in the case of forward dealings, encouraged speculative pressure against sterling at times of crises. The arrangements in force at the time of the reopening of the exchange were simple and inflexible. British importers could buy dollar exchange from the Bank for delivery in three months at a rate of \$2·79$\frac{1}{8}$, compared with the spot rate of \$2·79$\frac{7}{8}$. Exporters could sell dollars three months forward at a similar rate of discount, namely 1 per cent. In such circumstances, forward business tended to be in one direction only. If there appeared a danger that sterling would be devalued, forward dollars were in great demand; early in 1951, when revaluation appeared a possibility, the Bank had to buy large quantities of foreign exchange.

The present arrangement allows authorized banks and dealers to quote forward rates on a basis of supply and demand. In so doing, they must assure themselves that the would-be buyer or seller is interested solely from the commercial standpoint. And, of course, all transactions must be within the framework of exchange control. Within limits, this freedom will help to restore and maintain equilibrium in international payments. For, if sterling is under pressure, then the forward rate may show a considerable discount and this, in itself, will provide some stimulation for exports. This is so because exporters are able to dispose of prospective dollar earnings at a better price than would be secured by waiting for the transaction to mature.

That complete freedom is still far from operative in the foreign exchange market is shown by the way in which the forward rates for dollars settled down in relation to spot rates during the first few weeks of the new arrangements. Where there is no exchange control of any kind, the premium or discount on forward rates would be determined mainly by the differences between short-term interest rates in the two financial centres concerned. The New York three months' bill rate is 1$\frac{5}{8}$ per cent; that for bank bills in London is 1$\frac{1}{2}$ per cent and 1 per cent for Treasury bills. On interest considerations alone, the forward dollar rate should stand at a premium. It has lately been at a discount of about 2 per cent. Even so, the operation of the exchanges will tend, under these circumstances, to make credit conditions difficult in London and perhaps increase further the prevailing short-term interest rates.

RESTORATION OF A COMPANY STRUCK OFF THE REGISTER

by SPENCER G. MAURICE, Barrister-at-Law

SECTION 352 (1) of the Companies Act, 1948, empowers the Court to declare void the dissolution of a company on an application being made to the Court to do so. Section 353 (5) gives the Registrar of Companies power (after the completion of certain formalities) to strike a defunct company off the register, but subsection (6) of the same section makes provision for the restoration to the register of a company so struck off. In the recent case of *In re M. Belmont and Co Ltd* ([1951] 2 All E.R. 898), Wynn-Parry, J., in the Chancery Division considered whether the two sections were mutually exclusive of one another so that the fact that action to strike off the register had been taken under subsection (5) of Section 353 would prohibit the Court from declaring the dissolution void under subsection (1) of Section 352 (restoration to the register under subsection (6) of Section 353 not, in the circumstances, being possible).

Applicants probably not Creditors under Section 353

M. Belmont & Co Ltd, sold its various undertakings and was struck off the register of companies under Section 353 (5), and, notice of the striking-off having been duly published in the *London Gazette*, was dissolved. The company had previously been assessed by the Inland Revenue Commissioners in respect of excess profits tax, income-tax and profits tax, and all the assessments were, at the date of dissolution, under appeal. The effect of dissolution being to bring the legal existence of the company to an end, it followed that the appeals could not be proceeded with, nor could the Commissioners enforce any liability to tax.

The power given to the Court by subsection (6) of Section 353 to restore to the register a company which has been struck off, is only exercisable on the petition of the company itself, or a member or a creditor thereof. As their assessments were under appeal, it was, as Wynn-Parry, J., said, at least doubtful whether it could be said that the Commissioners were creditors so as to entitle them to proceed under subsection (6). The Commissioners accordingly proceeded by motion under subsection (1) of Section 352.

Sections 352 and 353: A Comparison

Wynn-Parry, J., drew attention to the essential differences between the provisions of Section 352 (1) and those of Section 353 (6).

In the first place, power to declare a dissolution void under Section 352 (1) exists 'Where a company has been dissolved'. That expression is so wide in its terms as apparently to cover any case of dissolution. In the case of Section 353 – which presupposes that the company is in default in filing proper returns with the Registrar – restoration to the register under subsection (6) is confined to cases where the striking-off has taken place under subsection (5).

Secondly, in the case of Section 352 (1) it is open to a very wide class of persons – the liquidator or 'any other person who appears to the Court to be interested' – to move for a declaration that the dissolution be declared void, while in the case of Section 353 (6) a petition may be made (as already observed) only by the company or a member or creditor.

Thirdly, an application under Section 352 (1) must be made within two years of the date of dissolution, whereas the petitioner under Section 353 (6) has twenty years from the date of publication in the *Gazette* in which to apply.

Sections 352 and 353 not mutually exclusive

In short, the two sections are concerned with two quite different procedures. But Wynn-Parry, J., could find in Section 353 nothing to limit the Court's wide jurisdiction under Section 352. On the contrary, proviso (*b*) to subsection (5) of Section 353 that

> 'nothing in this subsection shall affect the power of the Court to wind up a company the name of which has been struck off the register'

seemed to his lordship to point the other way, as postulating that the Court can bring the company sufficiently to life in order to wind it up, and, as the learned judge pointed out, that can be done without reference to the provisions of subsection (6) of Section 353. In the absence of authority to the contrary his lordship took the view that Section 352 (1) was not affected by Section 353 and that the effect of declaring a dissolution void under subsection (1) of Section 352 where a company had been struck off the register under Section 353 was to bring about the same position as obtained before the dissolution took place. Accordingly there was under Section 352 inherent

jurisdiction in the Court to order restoration to the register of the name of a company struck off under Section 353, and his lordship declared that the dissolution of M. Belmont & Co Ltd was void.

Conditions for Restoration under Section 353

Where an application is made under Section 352 (1) the Court has an absolute discretion whether or not to make an order declaring the dissolution to be void. Where a petition is presented under Section 353 (6), on the other hand, the Court must be satisfied that the company was at the time of the striking-off carrying on business or in operation,' or otherwise that it is just' that it be restored to the register.

There are few reported English cases under Section 353 (6) and its predecessors in the earlier Companies Acts, and it seems that in all those cases which are reported the company concerned was carrying on business or in operation. The earliest reported case would appear to be *In re The Hollinwood Estate Co Ltd* ((1886) 3 T.L.R. 232) where Chitty, J., made an order restoring the company's name to the register, deeming it to have been 'carrying on business or in operation'. The meaning of that expression was considered in *In re Outlay Assurance Society* ((1887) 34 Ch.D. 479) where North, J., held that it was enough if the company was at the time when it was struck off carrying on business only for the purpose of winding up voluntarily and realizing its assets.

Scottish Cases

Although the question appears never to have been before the English Court, there are three reported cases where the Court in Scotland has ordered restoration to the register when, although the company concerned was not carrying on business or in operation, it seemed 'otherwise . . . just' that its name should be restored. In *Healy* ([1903] 5 F. 644) a contributory petitioned for the restoration of a company which held an asset of the value of £2,000 which it had been about to sell but had been unable to sell in consequence of being struck off, and the First Division of the Court of Session held that it was just that the company should be restored since otherwise its assets would fall to the Crown as *bona vacantia* and be lost to the shareholders. The Second Division of the Court of Session followed *Healy* in *Charles Dale Ltd* ([1927] S.C. 130), where the company applied to have its name restored in order to recover from a bankrupt estate a dividend which had become payable since the date of striking-off.

Both these earlier cases in the Court of Session were referred to in the quite recent case of *Beith Unionist Association* ([1950] S.C. 1). The company in that case had not been carrying on business or in operation since 1927, and had been struck off the register in 1929, almost twenty years before the petition was brought. There could therefore be no question of a declaration under Section 352 (1). The petitioners were creditors who averred that assets of the company existed which would be sufficient to meet their own and other debts due by the company, and the Second Division of the Court of Session ordered restoration to the register because it was just to do so.

English Courts would probably follow Scottish

As Section 353 is equally applicable in England as in Scotland, it seems reasonably certain that the three Scottish cases referred to above would be followed by the English Court were it called upon to decide whether it was 'otherwise . . . just' to restore a company to the register. It is clearly just that creditors and contributories should have what is their due.

It is to be observed that the Court, in making an order for restoration to the register under Section 353 (6), may require the company to lodge with the registrar all returns which should have been made under the Act, and it seems that it may always make restoration under this subsection – and perhaps also under Section 352 (1) – conditional upon the presentation of a winding-up petition. Thus in *Beith Unionist Association* the Court required an undertaking by the petitioners to proceed with a voluntary liquidation of the company, though in fact it was in any case the petitioners' wish to do so.

Re-vesting of the Company's Property

Section 354 provides for the vesting in the Crown (or the Duchy of Lancaster or the Duke of Cornwall) as *bona vacantia* of the property of a company which has been dissolved, but such vesting is subject to any order made by the Court under Section 352 or Section 353. In *In re Cambridge Coffee Room Association Ltd* ([1952] 1 All E.R. 112), Wynn-Parry, J., considered whether a compulsory winding-up order made in pursuance of Section 353 (5) (*b*) (which itself gives no power to wind up) was such an order as would exclude Section 354. Considering the matter not free from doubt, his lordship felt it desirable to restore the company to the register under subsection (6) of Section 353, since a winding-up order made under that subsection would clearly divest the Crown of the property of the company and re-vest it in the company.

TABULAR ACCOUNTING-II

by ANGUS MACBEATH, C.A., A.C.W.A.

In the article which was published in our issue of January 5th, brief reference only was made to the balance sheets published in the two-sided form by three of the companies listed on page 7. This brief reference is now elaborated to cover further aspects of the three accounts.

THE companies in the list which publish their balance sheets in the two-sided form are: Dunlop Rubber Co Ltd, General Electric Co Ltd, and Imperial Chemical Industries Ltd.

The first point which will strike the reader on comparing the accounts of those companies is that Dunlop give with the accounts twenty-seven notes of explanation; Imperial Chemicals give ten notes, while General Electric manage with four notes only.

The balance sheets of Dunlop and Imperial Chemicals are practically identical in layout, the main difference appearing to be that Dunlop treat 'amounts owing to subsidiaries' as a liability while Imperial Chemicals treat the item as a deduction from the 'Shares and advances'. This difference would probably have appeared in the balance sheets had they been vertical.

In the Dunlop accounts a clear understanding of the profit and loss position is given by means of a 'Statement of profit' followed by a 'Disposal of profit' statement.

This statement will surely be rapidly understood and assimilated by the shareholder who, however, while appreciating this method of set-out in the profit and loss account, would probably also appreciate having a summary of the balance sheet in vertical form and showing the inter-relationship of the debit and credit sub-totals.

Reduction of Notes

Such a summary could permit more detail to be introduced into the balance sheet itself, thus obtaining the advantage of a reduction in the number of the notes accompanying the accounts.

The Imperial Chemicals balance sheet presents a solid mass of figures very clearly set out from an accounting point of view. The writer feels, however, that here also a summary in vertical form would assist the reader to understand the figures.

In the 1950 accounts there was quite an upheaval in the balance sheet arising from the revaluation of assets and, at a time when the accounts were undergoing radical alteration, a summary would seem to have particular attractions by pin-pointing the main alterations in the comparison of the totals for each group of items for the current and the previous year.

Sequence of Items

Both Dunlop and Imperial Chemicals adopt the normal sequence of assets and liabilities, working from fixed assets through to current assets and from capital through to current liabilities and provisions.

The General Electric Co, on the other hand, is unusual among the big companies in adopting in its balance sheet the order of realizability of assets and permanence of liabilities, commencing on the one side with current assets and working through to the fixed assets, and on the other side commencing with current liabilities and working through to the issued capital and reserves.

This company is unusual also in using as many as three columns each to set out the profit and loss account for both the current and the previous year. The writer has difficulty in feeling that either treatment has gained in clarity over the more usual methods.

The balance sheet here is set out in a fashion which seems ripe and suitable for a change-over to the vertical method and sequence, which could be made without detracting from its present value and possibly increasing the facility with which it is read and understood by the shareholder.

Blend of Two Methods

Consideration of the balance sheets of the three companies mentioned lends further point to the suggestion made in the previous article that the future may see a judicious blend of vertical and two-sided accounts.

A lengthy list of notes following a set of accounts and referred to them, seems cumbersome treatment where the notes are set out on a separate page overleaf from the accounts themselves and not – as in the Lever accounts – running alongside the actual account to which they relate.

It would seem better to bring as much detail as possible from the notes into the balance sheet itself, and to give a summary in vertical form showing the totals of the groups of items appearing in the enlarged balance sheet which would continue to be set out in the two-sided form.

AMERICAN ANNUAL REPORTS

WIDE RANGE OF INFORMATION ON COMPANIES' AFFAIRS

Public Interest in Clarity, Presentation and Circulation

by P. LIVINGSTONE ARMSTRONG, A.C.A.

MANY of us here in Britain have felt for some time that more should be done to make our annual accounts interesting and informative in a wider sense. American reports have been referred to on a number of occasions as being far in advance of ours in this respect.

During a recent business visit to the United States, I took the opportunity of discussing this subject with many influential and well-informed authorities in accounting, industry, publicity, commerce and the labour unions.

Their views have been weighed, and I have analysed in detail a considerable number of American reports and publications, so as to be able to present as complete a picture as possible. Even so, there are many different ways of doing things there, and a qualification is therefore necessary if I have overlooked or not given adequate mention to some points in outlining my impressions.

Great Development in last Twenty Years

Annual reports in the U.S.A. have developed greatly in the last two decades. The majority show considerable improvement, and of these the better ones are well thought out, magnificently produced, and give a wide range of information. It is, however, important to realize the background and purpose for which American annual reports are designed – as these differ much from our conditions – before drawing conclusions which may help us with our own problems.

Information on Financial Accounting

Generally speaking, even the leading American annual reports give little more actual information on financial accounting aspects than do the better British ones. The necessity of showing the sales turnover figure makes the profit and loss account, or income statement, more complete and, in turn, enables the disposal of income to be directly related.

But the clear presentation of information is far in advance of general British standards. The salient facts of the year are brought out quickly, usually on the first page; comparative figures over many years – from five to twenty-five – are common; important ratios are stressed, and proportions are explained and emphasized in a way which makes reading easy and interesting.

Additionally, a friendly atmosphere is created by wider information on management, employees, products and operations, which are all usually well covered and equally well presented. It is this aspect of presentation which is probably of most interest for us to examine, with the reasons which have led to it.

An address to the Southampton Members' Group of the South Eastern Society of Chartered Accountants on December 3rd, 1951.

Reasons for Development

The main reasons for the development of American annual reports into their present form are, I think, as follows.

The basis of company finance is increasingly on the smaller investor, of whom more than 15 million hold interests in corporation stocks. Legislation has advanced, as in Britain, for the protection of investors and is embodied in the various State laws and the S.E.C. regulations which set the pattern of the financial statements. These are encouraging also the trust and institution investments, often widely spread over industry. Large private investors are becoming fewer as each year passes.

In the larger companies, widespread holding of stock among many different classes of people in the enormous country makes simplicity important. There is the further point that under American inheritance laws women directly hold, it is believed, over 55 per cent of all property, which includes stocks of companies. In many companies, from the smallest to the largest, women stockholders predominate. Employee stockholding, too, is frequently encouraged and needs good information and contact.

Collective bargaining arrangements between labour and management are mainly on a plant basis (local or individual factory) and not on a national basis, as in Britain. The correction of employees' misunderstanding or ideas of inflated profits is therefore of the utmost importance. The old nineteenth-century suspicion of management and 'big business' was considerable and is still encountered.

Since 1941, the year in which the annual reports started to develop widely into their booklet or magazine form, the greatest part of the cost has been offset against the increased income-tax on profits.

The excellent presentation follows from the American way of life, in which the great emphasis is on sales. As soon as the advertising value (in the widest sense) of making attractive annual reports was realized, no effort was spared by the leading companies to make them outstanding. Much trouble is taken over them, and consulting specialists are widely employed to help with the design and preparation, so that they may reflect the personality of the company and the stability of its management.

Development began Fifty Years Ago

Although progress has been more rapid since 1941, notable examples of comprehensive and well-presented annual reports have been issued for many years. The Borden Co, American Telephone & Telegraph, U.S. Steel, Monsanto Chemicals, Swift & Co, and General Motors are amongst those who have led the way for over a quarter of a century, and in some cases for more than fifty years.

Many important contributions to the improvement of reports have been made by examination of industrial relations questions, both by company managements and by the consulting bodies advising them. Pressure of events drew attention to the widespread ignorance of the public in general, and industrial employees in particular, on the amount of profits and the working of private enterprise. This had been fostered by condensed and often obscure financial reports in which the minimum disclosure was aimed at and which had been common for many years. While much remains to be done, over the years the new attitude of making accounts informative and easily understood has gained general acceptance.

The substantial part played in this by the American accounting profession, through the American Institute and other bodies, is especially noteworthy. This was referred to also in some detail in the 1950 Management Accounting Report of the Anglo-American Council on Productivity.

Awards for Best Annual Reports

This development is well evidenced by many competitions, in which awards are made for the best annual report. That organized by the *Financial World* in New York is perhaps the best known: in this, gold, silver and bronze 'Oscars' are awarded annually for the best annual report in each of approximately a hundred different industries or areas of industry.

In 1951 some 5,000 reports were considered, including those of nearly all companies with shares on the stock exchanges of the United States and Canada. Out of these, 1,521 were given 'merit awards' and thus qualified for consideration by the independent panel of judges for the final 'Best of Industry' trophies in each of the different industries and sections. The 'Best of All Industry' gold Oscar was won by the Erie Railroad report, with that of the Celanese Corporation of America second.

Main types of Additional Information

The merit award requirements are interesting in that reports must attain a standard of information substantially greater than that for the accounts themselves, as laid down by the S.E.C. Regulations. This further information comprises at least four main sections, which are: adequate comparative statements, including earnings and dividends on a per-share basis; an effective chairman's or president's letter covering the year's events; explanation or notes on the progress of the business; and an appropriate number of supporting tabulations, illustrations, or diagrams to make the report clear.

In outlining the requirements for the 'Best of Industry' awards at the annual banquet in New York where the Oscars were presented, Mr Weston Smith, Vice-President of the *Financial World*, emphasized the balance between excellence of printing and adequacy of information and illustration reached by the winners.

Accounts: Layout and Terminology

Without going into detailed examination of the financial accounts' design and contents, it may be helpful to note the principles being followed. Much the same basic problems face the Americans – stock valuation, replacement costs, and the others – and the main differences from ours are in layout and terminology. These two subjects have been very carefully considered so that they shall be as simple as possible – so that all may understand.

Reference to the headings shows this well. Instead of 'Trading and profit and loss account', it is 'Income statement', or 'Results of operations'; 'Appropriation account' becomes 'Statement of net earnings retained in the business' or 'Profit retained in the business'. Instead of 'Balance sheet' it is 'Financial position'.

The S.E.C. Regulations are strict and detailed, but they allow a fair margin of discretion. This is used well in many instances, especially for linking in the simplified comparative statements. The better ones often cover ten years or more of the operating results and sales: some give, too, on an equally long comparison, the movement of capital and net profit, with the source and disposition of funds.

Terminology, too, has greatly improved in uniformity. In a country with over 100,000 accountants and forty-eight different States, often with their own laws affecting financial reports, this is a considerable task, and the American Institute of Accountants has already made notable progress.

Appearance and Cost

The reports themselves are well worth study: the beautiful appearance and generous illustration and information makes them in many cases fine publications, and one can readily understand why they are sometimes referred to as year-books and treasured as a permanent year-by-year record of a great company's growth and progress.

Freedom of paper and printing is, of course, a feature of American life which we miss here in Britain. These reports are almost all 11 by 8½ in., or quarto size. They are usually printed on art paper in from two to four colours, and contain between sixteen and twenty-four pages, although some have as many as sixty-eight pages. The covers, too, are usually excellently designed and are often printed from four-colour photographic or art blocks.

The printing cost seems to range on average from about 25 cents to $1.00 per copy (which to us is approximately 8*d* to 2*s* 6*d* at the equivalent cost-of-living level). As there are often over 50,000 stockholders – 400,000 in General Motors and over

700,000 in American Telephone & Telegraph – the number of copies printed off may have much effect in reducing the cost per copy.

Contacts with Stockholders

Increasing efforts are being made to maintain good contact with the stockholders, both through the annual report and by encouraging attendance at the annual meeting, at which the report and accounts are presented and explained. Some companies arrange for meetings to be held in many different centres for the convenience of stockholders who cannot travel a long distance to New York, and the chairman and one or more directors travel round to each meeting. Other companies have prepared films from the annual report: these are likewise sent on tour to main centres, where stockholders attend to see them. Impressive luncheons or dinners are often arranged for these occasions and copies of the minutes are sent to all who cannot attend the meeting.

Television developments, too, suggest that more use may be made of this medium.

Stockholder Magazines

Many companies have excellent stockholder magazines giving news of importance to stockholders, issued from two to four times a year. Many issue inserts of news or advertising points with the quarterly or half-yearly dividend cheques, and, in addition, some even send samples of the latest or best-selling products. (I hasten to add that this refers mainly to food products, such as flour and breakfast foods, and not automobiles or refrigerators as some in this country might hope!)

Letters of Welcome to new Stockholders

Likewise, the practice of many companies of sending a letter of welcome to new stockholders on taking up a holding for the first time deserves mention: it usually invites their interest and criticism, encloses the latest financial information, and is signed personally by the president or chairman. The complementary 'letter of regret' sent to each stockholder disposing of his holding, again personally signed, invites any criticism if the management policy is the cause. Questionnaires to stockholders are also widely used. These, as with public and stockholder opinion surveys, such as the well-organized ones carried out by the Controllership Foundation, have shown much ignorance and misunderstanding, which can then be dealt with in subsequent reports and communications.

Women Stockholders

As mentioned earlier, women stockholders are often in the majority – in 96 companies with some 3½ million stockholders in 1950 listed by *Good Housekeeping* in New York, women predominated to 57·7 per cent of all stockholders. Included among the companies were General Motors (56 per cent), U.S. Steel Corporation (54 per cent), Standard Oil (52·5 per cent) and American Telephone & Telegraph Co (66 per cent). These four, with 1½ million (1,577,000) stockholders, have therefore 947,000 women investors to be kept informed.

A discerning friend has said, indeed, that the women in America have arranged a social system in which their husbands are expected to work all out to earn wealth quickly: when, through overwork, they pass to an untimely grave, their widows are left with their hard-won earnings, usually invested in company stocks – and in dealing with these, have to make the best use they can of the annual reports!

Reports for Stockholders and Employees

Unlike Britain, reports are not always addressed so precisely to the stockholders only, although the latter are frequently referred to as the 'owners'. In a number of cases they are addressed to both stockholders and employees and, in a few instances, to stockholders, employees and patrons (or customers). The main accounts, however, apart from the simplified data or explanations, are entirely based on the stockholders' investment aspect and are conditioned by the S.E.C. Regulations and by the high professional standards now enforced by the American Institute and State societies of accountants.

Condensed Information

A recent trend to give condensed and less elaborate information to stockholders is becoming evident as many do not read the full report: the statistical sections often interest only a small number of readers. This applies, too, to employees: either a special annual report to employees is produced, or simplified information is given by letter, bulletin, or article in an employee magazine, the full annual report being offered in all cases for those who wish to have it. As many employees are also stockholders, they will often have already received the full report. This report for employees, or the information letter, is frequently sent direct by post to each employee's home.

As with the stockholders, many companies give great attention to explaining the contents of the report to the employees. They include talks with many types of illustrations, from large blocks representing 'income dollars and cents' to glass tubes with coloured liquids flowing through (materials, wages, taxes, dividends, reserves), or to films, shown to groups of a few hundred employees under the respective foremen, who have usually been at prior meetings.

This use of informative and easily read annual reports is often quoted as being a main force in the better education of both employees and the general public in financial matters.

Public Interest

American companies usually have a wide local and public interest. The annual report is frequently circulated to all the national sources of publicity: the Press – national, technical and general – radio, finance houses, government departments, political groups, and universities – as well as to the main community

organizations in the districts of the company's factories and offices. These will include the chief officials and executives of the local authority and the public utility companies, the chambers of commerce, trade associations, local press, radio and television, the company's suppliers and customers, as well as all opinion-leading individuals of local importance and standing – social as well as official.

It is somewhat startling to British thought to find the annual report being sent directly, and regularly each year, to judges, police, clergy, doctors, dentists, men's and women's clubs, cinemas, school teachers, youth organizations, and Sunday schools, or to find it in the local theatre programme. After this, one was not surprised to find the local barber's and beauty shops in the list too!

Realization of Social Responsibility

This great effort in making accounts understood, in their widest sense, arises, it is said, mainly from the new realization of social responsibility and faith in the private enterprise system which Americans hold to be so important in their way of life.

I have referred to reports that we have been discussing as being the better ones: there are many others. But the Americans are ready to admit they have still far to go to an all-round standard of the best, and that it is the few, rather than the majority, who yet give the general reader fully comprehensive information. It is not for us to criticize this. We have far too much to do with our own, for I very much doubt if the majority of the general public in Britain have any better idea of financial results than has the American public.

It is not sufficiently realized that a revolution has taken place here in the last twenty-five years – an economic one, of profound consequence to us all. In the use of our industrial and commercial potential it is in everyone's interest that understanding of basic economic questions should be improved to the utmost. Today this need is urgent. In his own sphere, every accountant can help.

Suggestions for Improving Reports

These, very briefly, are suggestions for improving our own annual reports. It is not a case of copying the American layouts, good as they are: it is one of applying our British traditional thought to give, within the conditions and resources available to us, a realistic, simple, and clear picture which our own people will understand. Each case is an individual one for the particular company, and the report should be designed to fit the related circumstances exactly.

The purpose of the annual reports is that of informing the shareholders, who in law are presumed to be laymen, not experts, on the progress and financial position of the company. In Britain, as in America, holdings often consist of large numbers of small investors with limited knowledge of financial terms and accounting practice. The published accounts are quoted frequently under conditions of extreme limitation of space, especially in the national Press.

Clarity Essential

The primary need is for clarity. This applies in two ways: clarity of information and clarity of explanation. The utmost skill and art of the accountant is often called for in presenting the statutory information and its significant features clearly, but the value of doing this is out of all proportion to the trouble needed, if the main facts can be readily seen and understood. This is often still better when they can be separately digested.

Secondly, understanding is much helped if the significance is put into perspective. This applies particularly to dividends and profits and their relationship, respectively, to capital employed and sales, both of which are profoundly misunderstood by the general public.

This doesn't call for graphs or charts of many colours – useful though they can be at times. It just means clarity, so that one can see the important and significant figures at a glance – without having to work them out oneself, often only after getting at them by calculation and even research.

There are, of course, a number of good British reports in this wider sense. Oils, rubber and gold are examples of industries in which these are usually better than average in information. There are also a number of excellent individual ones, but these are only a handful in the total.

It is not unusual in Britain to read a full set of accounts, even of a group of companies, with the chairman's speech and directors' report, and still not be able to tell what is done or made!

As with the Americans, terminology is still far from being agreed. The words capital, reserve, provision, cost and even profit have various interpretations according to the reader's understanding. The recently issued report on accounting terms and concepts deserves attention on this. I need hardly say how few people outside the professional accounting and management classes really understand the effect of fundamental accounting assumptions, familiar as they are to accountants. Replacement costs, stock and material-pricing policies, reserves, even taxation – are, more often than not, just mysteries.

The background picture deserves consideration. All accounting relates to people or things, even if in figures: this is often overlooked. Profit, although essential, is not the goal, nor is employment: it is service to the community that a company is seeking. This is primarily based on team-work. And in the changed conditions of today, proper understanding of this in its financial sense is increasingly important for all, whether shareholders, management, employees, or customers.

In maintaining and strengthening this bond, and in keeping the personal touch which has played a major part for so long in good industrial relations, the development of better annual reports offers a great opportunity for us to seize.

THE ACCOUNTANT IN THE MINING INDUSTRY

by W. CHARLTON EDWARDS, F.C.A.,
Finance Director, West Midlands Coal Board

Introduction

I PROPOSE to describe the functions which accountants are called upon to discharge in this great industry, and how they fit into the broad pattern of management, for accountants and management are, so to speak, two sides of the same coin.

Organization

It was the National Coal Board on whom Parliament placed the responsibility for carrying on the coal industry in Great Britain. The National Board, when they were appointed in 1946, decided, however, that areas were to be the focal point of management, and that the activities of a group of areas could best be co-ordinated through divisional boards.

There are forty-eight areas and nine divisional boards, and the latter are responsible to the National Board for the conduct of the industry in their respective divisions. The West Midlands Divisional Board, of which I am a member, and with whose affairs I am mainly concerned in this address, controls about sixty collieries which are located in North Staffordshire, Cannock Chase, Shropshire, Worcestershire, South Staffordshire and Warwickshire. In addition, there are forty-five small mines which, by reason of their size, we decided are best run by private individuals, and which are carried on under licence from the Coal Board.

Apart from collieries, there are 135 farms, comprising 15,000 acres, nearly 6,000 houses, 8 brickworks, a briquetting plant, a private railway, a power station, and 8 wagon repair shops. In addition to the £19½ million which we paid for our collieries, we have had to pay for capital expenditure incurred by the former owners during a certain period prior to the vesting date, and also a large sum to the Ministry of Fuel and Power for minerals. Moreover, we shall have to pay for the other assets I have mentioned according to a valuation to be laid down by the Midland District Valuation Board, which has been established by the Minister of Fuel and Power under the Act.

My Divisional Board consists of a chairman, a deputy-chairman, marketing, production, labour and finance directors. Like many other boards in private industry, my Board is therefore a functional one, each member, except for the chairman and deputy chairman, being primarily responsible for his department, although all the members of the Board are collectively accountable to the National Board for the conduct of the division.

The chart headed 'Organization of Finance Department' shows the way in which the various responsibilities which come under my personal supervision are allocated to the senior members of my staff at Himley, and I propose in the course of this address to describe as fully as my time will allow the duties which these officials perform. I imagine that by the time I come to the end of this talk you will agree with me that the field of accountancy in the mining industry is a very interesting and extensive one.

Requirements of the Coal Industry Nationalization Act, 1946

The Coal Industry Nationalization Act, 1946, lays down that the revenues of the Board shall not be less than sufficient for meeting all outgoings chargeable to revenue account on an average of good and bad years, and that

> 'the Board shall keep proper accounts and other records in relation thereto and shall prepare in respect of each financial year of the Board a statement of accounts in such form as the minister may direct, being a form which shall conform with the best commercial standards and which shall distinguish the colliery activities and each of the main ancillary activities of the Board'.

Provision is also made

> 'that the accounts of the Board shall be audited by auditors to be appointed annually by the minister'.

The Board's Revenue

Let us now consider what is implied in these simple phrases. In the first place, the Board must ensure that its revenue is sufficient to cover its costs, and we must therefore decide what is revenue for this purpose. Primarily, it is the proceeds from the sale of our products, but we have income from other sources as well, such as rents from houses and farms, royalties from licensed mines, and charges for services rendered by wagon repair shops.

Most of the Board's revenue is, of course, derived from the sale of coal, and behind the total we received from this source in 1950, £40½ million, lies an amazing network of prices built up over many years, partly by dint of experience, partly by commercial expedients, and partly by genuine scientific evaluation of qualities.

Under the Act, the Coal Board is bound to make supplies of coal available

> 'at such prices as may seem to them best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage'.

This means that we must make an exhaustive examination of all our coals and relate the prices to the conclusions we reach. Clearly, this is a highly technical and complex operation in which accountants play a

A lecture delivered to the Nottingham Chartered Accountant Students' Society on December 5th, 1951.

relatively minor part, but it is the Board's finance department who must ultimately be in a position to advise the National Board that total proceeds are sufficient to meet their costs.

Capital or Revenue?

Another problem which we have to face, in relation to the measurement of our revenue against our costs, is the determination as to whether an item is of a capital or revenue nature. This question is one which practising accountants deal with every day, and in view of the large sums spent on a wide variety of equipment in the mining industry, we in the Coal Board are very much concerned with it too.

The answer to the question is important, not only from the viewpoint of presenting accurate accounts, but also of seeing that the colliery manager is fairly treated as between capital and revenue in the costs of the colliery for which he is responsible. The finance department at headquarters, in consultation with accounting and technical people in the divisions, have prepared a capital and revenue code to enable everybody concerned to follow how they stand in this matter, and this code has been well received, both by accountants and technicians throughout the industry.

The Board's Accounts

I have referred to the National Board's statutory obligations to prepare and submit accounts for the Minister of Fuel to lay before Parliament each year. The Act says that these accounts must be drawn up according to 'the best commercial standard'. Stock is taken at December 31st in each year and accounts are prepared in each area by the area chief accountant and his staff.

These are duly examined and summarized divisionally by the divisional chief accountant and the summaries sent to headquarters, who, in turn, bring their own and the divisional accounts together in the published form. You will see, therefore, that almost all our accounts are kept at area offices by the area chief accountants, those maintained at headquarters or divisions being relatively few.

Apart from the annual accounts, monthly profit and loss accounts are prepared for the information of area general managers and the Divisional Board rather less than three weeks after the end of the month to which they relate. The profit and loss account is prepared for each colliery and for certain ancillaries, and these are also collated at divisional level and sent to London. These monthly accounts are the backbone, so to speak, of our management accounting, and are extensively used by management in appraising the results of our various activities. They are simple in form and are common to the whole country.

Since wage costs are nearly 60 per cent of our total costs, we are required to send to the National Board each week a statement of weekly wage costs in a standard form, which is nothing more than a simple basic summary. Local management, however, requires a far more detailed analysis of wages than this summary affords. They invariably require weekly costs relating to operations on the coal face.

They also demand costs relating to labour employed elsewhere underground, and on the surface. Sometimes wage costs are required dealing with particular seams or districts, and occasionally costs are required for particular jobs. You will therefore see that local management has the widest discretion in the degree to which they require statements of wage costs and analyses.

The mining industry is very subject to physical circumstances which are not always within the colliery manager's control. Conditions can change from day to day, and even from hour to hour. This is a factor which must always have its bearing on the management's costing requirements, and, in addition to our routine costs, *ad hoc* inquiries are frequently set on foot by management and carried out by our cost accountants.

Wages

The industry's wage structure has, like its price structure, been built up over many years without regard to uniformity over the country as a whole. Varied physical conditions, the ease with which the coal could be got, the ability of managements to withstand wage claims, wages agreements by districts prior to nationalization, the various awards which the National Tribunal has given, free coal and other perquisites to which miners are entitled in some parts of the country – all these factors have given rise to a wage structure which has become exceedingly complex.

It is hardly surprising, therefore, that the accountant must take a very lively interest in all matters affecting wages and the control of wages. We have, as you probably know, conciliation agreements with the National Union of Mineworkers, and with other unions too. There are, moreover, local agreements made between the colliery manager and his men.

The subject of colliery wages is indeed a study in itself, and in my division the area chief accountant is himself the secretary of the conciliation board set up in each area, which means that he must have a good working knowledge of the issues involved when complicated wage questions must be settled.

Payment of Wages

Before I leave the subject of colliery wages, I ought to mention that in the West Midlands we employ about 56,000 men, all of whom must, of course, be paid weekly at the collieries. This means that we must make adequate banking arrangements, we must take proper precautions against theft – no mean task in a job of this size – and we must ensure that our wage records are adequate, not only as records of the wages paid, but as the basis from which our weekly wage costs are prepared. The payment of wages means, moreover, that a large clerical staff must be employed.

We must therefore, as accountants, see that the

very best payroll systems are in use at all our collieries. We are, in fact, at present engaged on a review of our wages organization and of our payroll procedures throughout the division.

Banking Arrangements

I have mentioned banking and the arrangements we have to make to ensure that there are sufficient funds available to meet our weekly wage bill. The Board's banking arrangements are made by the finance department at headquarters on behalf of the industry as a whole. The Board's main account is with the Bank of England, but our London people have arranged, on certain terms, to make use of the local facilities afforded by the joint stock banks, as indeed they must, because the Bank of England has no branches in the mining towns.

Broadly speaking, our banking arrangements provide that we pay in our proceeds (in the West Midlands Division approximately £3½ million a month) to the branch banks in our four areas; cash for wages is drawn at the end of each week, and cheques are passed to our suppliers in the normal way. The balance on our area accounts with the joint stock banks are then cleared to the Bank of England each night.

There is thus a delay in the effect which our transactions in the division have on the central bank balance, and this, together with an agreed time for clearances, is taken into account in the financial arrangements which we have with the banks. We are all too prone, perhaps, to take for granted the remarkable services which the banks render to us, and I would like to pay tribute to the co-operation which the local banks have shown to our staffs from the beginning.

Capital Development

I must now refer to the money we have spent on our developments since we took over in January 1947. You will have read in the newspapers from time to time that the Board has spent large sums in capital; these have been devoted, not only to the maintenance of output, but also to major schemes of development.

There is scarcely a capital development project which has no financial gain as the impetus to its conception. One would normally say that unless a profit is to be made out of a scheme it would not be proceeded with. This is not entirely true, however, because there are some projects from which no revenue expectations may be derived; for example, the erection of pithead baths. Even here, however, we would be spending money, and rightly so, on the men's welfare; unless we look after our work-people, we cannot expect to attract them into our industry, and this would obviously have its ultimate effect on our output and therefore on our profits.

It is clear, therefore, that all these capital expenditure projects have financial implications of one kind or another, and it is almost invariably the case that the figures would be prepared and furnished by the accountants in the finance department.

Thus, while it is, of course, usually the production director who is responsible for the scheme or project, it is the area chief accountant who prepares most of the figures of profitability expectations, and these are scrutinized by the divisional finance officer at the divisional office, who advises the finance director on the financial aspect of every scheme before it is submitted to the Divisional Board for final approval.

I need hardly say that, throughout, the finance department work in close touch with the technicians, for without a happy liaison of this kind really well-knit and carefully conceived plans can hardly be borne. Some of our schemes are large, and may amount to several million pounds. Several in my division have exceeded the £100,000 mark.

Once a development project has been completed, the Divisional Board will want to know whether the results claimed for it have been borne out in practice. Here again, the finance department is called in to prepare a report on profitability within a reasonable time after the scheme is completed.

Financial Negotiations

In a large organization such as ours, it is inevitable that negotiations involving finance in some form or other should be in progress all the time; for example, leases have to be renewed, a business associated with our industry may have to be purchased, a contract for a number of years may be contemplated, contract prices may require investigating. It is the duty of my people to look into these matters from the finance angle so that my board may, through me, be properly advised.

Taxation

Like all other industrial concerns the Coal Board is liable to taxation and must ensure that its costs are properly safeguarded in this respect, and so we have a taxation accountant in the divisional office who is responsible for the detail work of preparing our computations. These computations must, of course, take account of the very large number of Schedule A assessments relating to our estates, the proper allocation of expenditure as between capital and revenue, and the classification of capital expenditure for wear and tear purposes. Divisional computations are consolidated at headquarters who also undertake the negotiations with the Inland Revenue.

Valuation

I mentioned earlier that the compensation paid by the Coal Board for the collieries they took over amounted to about £164 million, the share of this sum in the West Midlands Division being about £19½ million. I said also that in addition to this and other substantial payments we have to pay compensation to the old owners for those assets which were so closely linked to the mining industry that the Coal Board had to take them over too. The £164 million, known as the 'global sum', had to be allocated to the owners' districts, and then divided again and allocated to each owner; this process, once the global sum was

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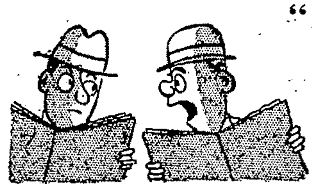

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fixed, was no affair of ours. The Coal Board are, however, very much concerned with the price we have got to pay for these other assets.

The Midland District Valuation Board is the statutory body set up to determine these values for the West Midlands Division. It is a quasi-judicial body upon which is placed the duty of hearing both sides, namely the claimant on the one hand and the Coal Board on the other.

The job of co-ordinating the valuation work on behalf of the Coal Board – whether it be for brick-works, houses, farms, or any of the other assets, large or small, is placed in the hands of the finance department. That is to say, the Coal Board look to me, with the assistance of my staff and of experts from outside, to see that representations are efficiently and cogently made to the District Valuation Board.

Credit Control

Another aspect of our work is that of credit control. Our customers are numerous, their circumstances extremely varied. We have to watch the credit-worthiness of our customers just like any other commercial concern. Some of them buy their coal from other divisions as well. All this means that we have had to develop a technique of credit control in which the finance department has to play a leading part.

Stores Control

A problem we had to face when we took over the mines was the establishment of an adequate control over stores. Generally speaking, in my division at any rate, the only control of stores consisted of an examination of costs on the one hand and invoices for goods purchased on the other.

Few colliery companies possessed a really efficient system of stores records. To some extent we have centralized our stores, and the finance department have undertaken the establishment of efficient records of values; the responsibility of looking after stores does not belong to the finance department, but the establishment of a sound system of records was one of the services which we were expected to render.

Internal Audit

There is one aspect of the finance department's activities which is virtually new to the industry – I refer to the internal audit section. Every company, as we know, must, under the Companies Act, have an auditor, and similarly under the Coal Industry Nationalization Act, the Board's accounts must be audited and certified by independent and professional auditors before they are laid before Parliament and published to the country.

It would be quite impossible for a professional firm as such to satisfy themselves that the accounts they have audited show a true and correct view of the Board's state of affairs; they would require an immense staff to do the work, and in any event we do not think it would be the most expedient arrangement to make, for reasons I will mention later.

The finance department have, therefore, set up an internal audit section. While the internal audit staff are employees of, and under instruction from the Board, they work very closely with the professional auditors. A programme is drawn up in agreement with the auditors, who are thereby relieved of a good deal of checking and audit work which is done by the internal audit people. It involves much detailed checking, not only of the accounts at the area office, but also of the books at the colliery.

Internal Audit and Management

In practice, the duties of the internal audit section are highly specialized and call for exceptional qualities in those who do the work. If they carry out their duties properly they can be of the highest service to management. It might be said that internal control can be secured without an internal audit organization, but internal audit does afford an assurance that management is effective.

There are, however, many other functions laid at the door of the internal auditors besides their duties in relation to internal check. They should, of course, detect frauds, make special investigations for the management, and they should see that the various instructions issued by the management are carried out. The essentials of an internal auditor are to examine, review, and appraise; he should fit into the broad pattern of management. He discharges these duties, firstly, by working to the programme drawn up in agreement with the professional auditors which I have already mentioned, and, secondly, by a series of reports, the follow-up of which it falls to the management to see to.

Although the internal auditor is closely integrated into the management, he obviously has his limits. He is not a technical man or a scientist, but at least he has, by the very nature of his work, a good view of every phase of the Board's activities, and he should, for that reason, be one of the best informed of the Board's servants.

Policy

I have so far reviewed the work which the accountants in the finance department do in my division. The Coal Board, like every other commercial concern, has a business to run and must formulate a policy. Generally speaking it can be said that in matters of policy the National Board issue directives on major issues, while divisional boards are free to make decisions on day-to-day problems – and they are legion – which are inseparable from the conduct of any large business.

In a rather similar way, the finance department in London decide what steps shall be followed on the broadest questions of finance and accounting and leave us in the divisions to see that they are carried out. We are given the widest discretion in the matter of techniques.

Let me give you an example. We decided a few months ago to install punched cards for invoicing and sales statistics in the West Midlands. This was a big step, but we are proceeding with it without any

supervision from London whatsoever. I could quote many cases in which the accountant on the spot has exercised complete freedom to follow his own methods of getting the job done.

The Accountant's Initiative

Obviously, those of us who are ultimately responsible must be satisfied that our techniques are both efficient and economical, but within those wide limits we encourage our accountants to follow their own initiative in everything they do. We believe in it and it has paid rich dividends. Those accountants who have received a good training, who demonstrate that they can put it to good account, and who show exceptional character, are given unique opportunities in our organization.

The area is the focal point of management in the mining industry, and each area has an area chief accountant. It is my function, with the assistance of my staff in the divisional office, to see that the methods and techniques used by area chief accountants are supervised or co-ordinated, and to be sure that advice is readily available to them in any accounting enterprise they may wish to initiate.

We do all we can to encourage area chief accountants, with their financial accountants, cost accountants, cashiers, etc., to use their own initiative within the wide limits of divisional and headquarters requirements. Each area chief accountant has his own problems which spring from the exigencies of management in the areas, and he is usually in the best position to know what should be done to meet a given situation. As I have said, however, my people at the divisional office are available for advice if he should require it in any emergency, and headquarters are ever most willing to assist us in any of our problems.

Finance Department: Delegation of Responsibility

I will now describe in a little more detail how my staff functions at the divisional office, and how the accountants in the areas work. The chart shows how the senior staff, whose duties I have briefly described, are deployed in the divisional and area offices.

The West Midlands Division is divided into four areas, and the management of each area is virtually vested in the area general manager. There is an area chief accountant at each area office, and to assist him he has a financial accountant, whose duties broadly are to take care of the accounts (control ledgers etc.) in the area, and a cost accountant, whose task, among other things, is to see that costs are promptly presented, through the area chief accountant, to the area general manager and to co-ordinate the costs prepared at the collieries.

There is also a chief cashier in each area, whose function is to supervise the handling of cash, not only in the area office, but at the collieries, where the volume of cash handled for wages is, of course, immense.

In addition, there is an area chief internal auditor; he is responsible direct to the divisional chief internal auditor, who reports to the chief internal auditor in London who, in turn, has the right of direct report to the National Board.

The staff employed on work which is directed by the finance department numbers about 1,000 in the West Midlands Division, a large proportion of whom are engaged on wages. Practically the whole of this staff is located either in the area offices or at the collieries.

Their work is supervised by the four area chief accountants and their senior accountants. In the control of so large a staff, and in the supervision of the work they do, the area chief accountants and their senior accountants must show all those qualities which the syllabus of The Institute of Chartered Accountants in England and Wales says are requisite in an accountant, namely

> 'tact, the power to inspire confidence, and the ability to plan the work of others'.

I have necessarily made but passing reference to the valuable services rendered to the Board by our accountants in London. Their work is of a more specialized character, and in this way we in the divisions can be assured of advice and guidance from experts in any particular problem which may come our way. Their main function, however, is an executive one in the sense that they must be sure that the Board's financial policy is being carried out by the Division.

The Future

It is never safe to try and predict what may happen in the future. No progressive finance organization can afford, however, to rest on its laurels. We are constantly searching for new methods; we are ever conscious that our main duty is to serve the management of this great industry.

The methods which we employ now have developed through a process of evolution through the years. We would, however, be quite ready to throw them overboard if and when better ones are found. For example, we are, as I said earlier, in process of turning over to punched cards for our invoicing and sales statistics, and this work will be done at Himley Hall instead of from nearly a hundred different points as hitherto.

Much remains to be done to improve our wages procedures, which over the years have become exceedingly complicated and in many cases very costly.

But perhaps it is in the field of costing that we must concentrate our attention more especially in the years to come. As has been announced in the House of Commons, we are consulting Robson, Morrow & Co, and they are at present investigating the possibilities of standard costs. There is a great future for standard costs in this country, and we believe they should be applied in the mining industry, but,

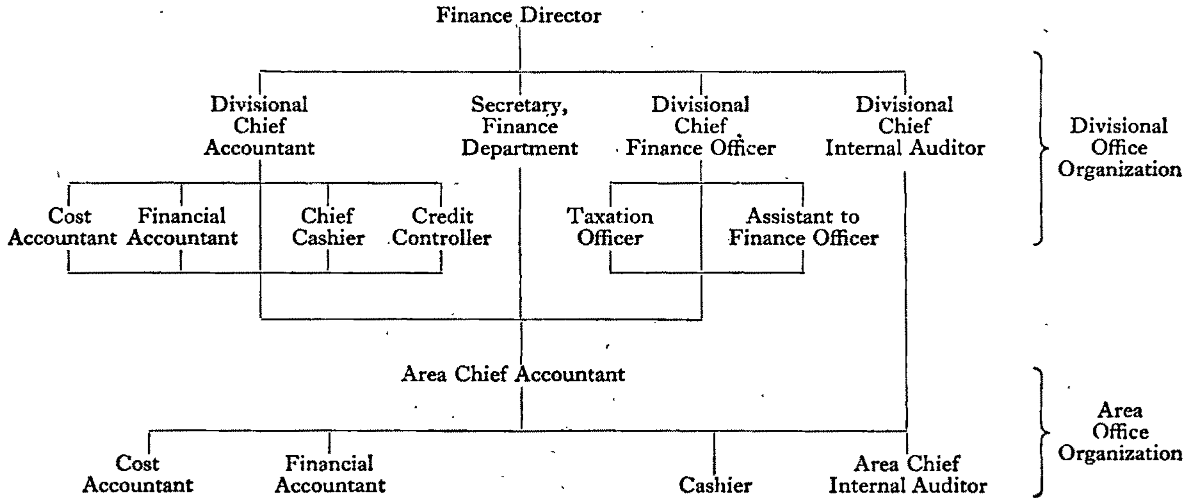
of course, we want to be satisfied that they are a practical possibility first.

No doubt in course of time many more changes will be brought about, but I think you will agree from what I have said that at least we have fresh and open minds in these matters, which is the pre-requisite to good service to efficient management by accountants.

Mining is a hazardous occupation and management in the industry is necessarily preoccupied by considerations of the safety of the men who work in it. Physical conditions can quickly change, and mining engineers' plans are subject to constant adjustment. These factors lie at the root of our daily undertakings. They explain the wonderful discipline and teamwork which are to be found at all levels and in all departments in the industry, and the finance department and its accountants play their part in overcoming the manifold but interesting problems which face us with such unremitting frequency.

I hope that this address, sketchy though it has been, has served to show you the kind of work we do and the variety of interesting topics into which we enter.

Organization of Finance Department



WEEKLY NOTES

Disclosure of Bank Interest to the Revenue

The Finance Act, 1951, by Section 27, empowered the Inland Revenue to require from the Post Office Savings Bank and from all persons carrying on a trade or business, returns of interest paid or credited without deduction of tax to an amount exceeding £15. The interest must have been paid or credited in the ordinary course of the operations of the trade or business, so that the persons mostly affected are the banks and discount houses. We understand that forms are now being issued by the Revenue to the persons concerned, calling for returns of interest paid or credited since April 6th, 1950. This is part of the drive against tax evasion as the interest in question should normally be shown by the recipient on his income-tax return. Interest exceeding £15 from savings banks is already returned by these banks in most cases, to comply with the conditions under which special relief is allowed to savings banks under Section 39 of the Income Tax Act, 1918, while industrial and provident societies are normally required to return individual amounts of interest of £5 or more under Section 32 of the Finance Act, 1933. It will be interesting to see to what extent the present inquiry discloses hitherto concealed evasion.

Companies Registered in Great Britain

According to the *Board of Trade Journal* the number of companies registered in Great Britain in 1951 was 13,356 having a nominal capital of £95,309,000 against 13,726 new registrations in 1950 with a nominal capital of £73,046,000.

The number of registrations in December 1951 was 1,134 against 1,165 in the previous December. Of this 1,134 only two were public companies. One of the private companies had a nominal capital exceeding £1 million.

The Sterling Conference

Statements at the close of Commonwealth conferences are usually tight-lipped and general in tone. The one released on Tuesday, following the Commonwealth sterling talks in London was in that tradition – perhaps necessarily so since it was dealing with the future of sterling.

Nevertheless, the statement contains a number of important features. If action follows on all the points mentioned, the consequences would be very far-reaching before the end of 1952. For instance, the conference agreed that the immediate objective was to establish a balance in the sterling area's balance of

payments before the end of this year. The means to achieve this are not dealt with in detail in the communiqué but they include such familiar prescriptions as measures to reduce currency inflation, lower government expenditure, imports and – in some cases – borrowing. Clearly, the important question is how far will action go under each of these heads.

A decision to begin an examination of the potential of different areas within the Commonwealth for quickly expanding production, carries with it a suggestion that some arrangement of priorities for economic development over the whole Commonwealth is contemplated. A list of Commonwealth priorities is a new development.

'It is our definite objective to make sterling convertible and keep it so', says paragraph 18 of the statement. An investigation into the best ways of achieving this end is to begin right away. It has never been said that there was any other objective for those who have to guide the fortunes of the pound. But it is a long time since the objective was stated so categorically. It presages something stronger than hope.

Retail Trade in November

At this time of the year, the retail houses are busy moving their stocks with the aid of the January sales. Signs are not lacking that this time the sales have been slow to rouse any great buying interest, as opposed to shop-window looking. This January, too, there was every incentive for the shops to use the sales as a pretext for judiciously moving many ranges of goods to lower price-levels which will stay in operation until trade begins to pick up.

While many are wondering just how successful the sales have been to interest a public reluctant to buy, the Board of Trade statistics for November retail sales are now available. Sales for that month were higher than in October (an unusual movement for the time of the year to judge from previous years since the war and an indication that buying habits have been disturbed of recent months). But if allowance is made for the movement of retail prices over the year to November (there was a 12 per cent increase in the Ministry of Labour's retail price index for that period) it is a reasonable inference from the returns that the volume of trade, other than in food categories, was down on the year.

The worst results measured from one November to the other were recorded by women's, men's and boys' wear and furniture. Groceries put up the best performance.

Record Fire Damage

At a time when prices are rising, one would expect to notice higher insurance claims in such branches as fire and accident. The fire damage figures for 1951 are the highest ever recorded, having exceeded the previous record of £22·5 million set up in 1949 by £677,000. Last year's total losses of £24·1 million were in fact nearly £3·6 million higher than those for 1950. Exactly £1 million was added to this year's heavy total by the large railway fire which broke out in London just before Christmas.

FINANCE AND COMMERCE

The firm resolve of the Commonwealth Finance Ministers to restore economic equilibrium to the sterling area has instilled a little more confidence in stock markets. In the main, however, investors are still content to await the details of the whole economic plan of action before returning to support the market.

The Tetley Reprint

This week we complete the reprint of the accounts of Joshua Tetley & Son Ltd with the five-year trading accounts, financial position and the statement of brewery properties, etc., published by the company for the first time. These statements, the chairman says, are designed to speak for themselves, being set out in language as simple as possible so as to be readily understood.

In the circumstances, it is interesting to see what sort of accompanying explanation from the chairman is thought necessary. The value of sales, he points out, shows an increase of some 3 per cent as compared with the previous year, the increase being mainly attributable to the acquisition of new properties. (The number of properties is given in 'The year in brief'.)

The chairman further explains that prices were raised at the beginning of May. Sales of bottled ale improved and the bottling department worked to capacity for most of the year. Volume of sales per customer again declined but the additional licensed properties acquired in Lancashire helped the company's trade to a satisfactory extent and sales through these houses tended to improve.

The Chairman Explains

Cost of materials and production increased by about £17,000 owing to a rise in the price of barley and higher wages. Bottling costs increased only to a slight extent because increased turnover almost offset increased wages and other bottling expenses.

Selling and administrative expenses rose appreciably owing to the extra cost of all forms of transport and to additional expenditure on advertising. The extra charge for property expenses arose from the fact that more houses called for repairs during the year and the increased cost of everything concerned with the maintenance of properties.

Viewing the decrease in net profit before taxation from £533,091 to £515,139, the chairman explains that this year, for the first time, interest has had to be provided on the 4 per cent debenture stock recently issued. Taxation has gone up by some £36,000, he continues, so that the net profit after tax is £192,924 against £246,481. Taxation on the profits falling to be charged this year, he adds, amounts to 12*s* 6*d* in the pound so that a very small proportion of the profits earned remains to be invested in the business and provide dividends.

Working Capital Decline

Turning to the financial position as shown in statement 2, the chairman notes net current assets as the most important item calling for comment. During 1951, he explains, £220,000 was allocated out of the latest 4 per cent debenture issue for the purpose of augmenting the company's working capital. After taking this into account, the net current assets figure of £478,877 shows a further decline of £64,958.

It appears that working capital, the chairman observes, is declining steadily every year owing to the

JOSHUA TETLEY & SON LIMITED

The Year in Brief

	1951	*1950*
Sales	£5,840,319	*£5,665,481*
Net Profit after Taxation	£192,924	*£246,481*
Net Profit after Taxation (per £ of Sales)	7·93 pence	*10 44 pence*
Net Profit after Taxation (available per £ of Ordinary Stock)	38·63 pence	*50·68 pence*
Dividend (net) paid or proposed per £ Ordinary Stock	20·47 pence	*21·12 pence*
Dividends (net) paid or proposed per £ of Sales	4·66 pence	*4·96 pence*
Profit invested in business per £ of Sales	3·27 pence	*5·48 pence*
Number of Employees at end of year	1,105	*1,101*
Number of Licensed Properties owned	480	*431*
Number of Ordinary Stockholders at end of year	951	*862*
Number of Preference Stockholders at end of year	1,590	*1,587*

JOSHUA TETLEY & SON LIMITED

Trading Accounts **Statement I**

	1951	1950	1949	1948	1947
	£	£	£	£	£
Sales of Cask and Bottled Ale	5,840,319	5,665,481	5,950,417	5,944,594	4,545,510
Less Excise Duty collected and paid over to Revenue	3,850,256	3,783,140	4,116,169	4,179,186	3,099,238
Net Sales of Cask and Bottled Ale	1,990,063	1,882,341	1,834,248	1,765,408	1,446,272
Less Materials and Cost of Production	880,227	863,419	893,561	771,547	663,657
Profit on Sales of Cask and Bottled Ale	1,109,836	1,018,922	940,687	993,861	782,615
Rents of Properties and Profits on Managed Houses	142,784	119,587	107,860	100,637	97,363
Sundry Income, Commission, Interest, etc.	27,169	19,054	14,897	13,472	12,806
TOTAL INCOME	£1,279,789	£1,157,563	£1,063,444	£1,107,970	£892,784
Less Expenses:					
Selling and Administration Expenses	516,167	424,133	426,239	377,637	321,742
Property Expenses, Repairs, Depreciation, etc.	203,854	176,972	182,451	112,078	91,328
TOTAL EXPENSES	£720,021	£601,105	£608,690	£489,715	£413,070
NET TRADING PROFIT FOR YEAR	559,768	556,458	454,754	618,255	479,714
Add Transfer from provision for Deferred Repairs	—	—	2,818	—	—
Transfer Fees	89	58	62	61	71
Dividends and Debenture Interest – Subsidiary Company	400	400	400	757	2,563
	£560,257	£556,916	£458,034	£619,073	£482,348
Less Charges:					
Interest on 3½ per cent Debenture Stock – Gross	19,250	19,250	17,922	15,750	15,750
Interest on 4 per cent Debenture Stock – Gross	21,333	—	—	—	—
Directors' Fees	4,125	4,375	4,000	4,026	4,000
Debenture Stock Trustees' Fees	410	200	200	200	250
	£45,118	£23,825	£22,122	£19,976	£20,000
NET PROFIT BEFORE TAXATION	515,139	533,091	435,912	599,097	462,348
Less Taxation:					
Profits Tax and Income Tax	322,215	286,610	244,268	310,632	242,800
NET PROFIT AFTER TAXATION	£192,924	£246,481	£191,644	£288,465	£219,548
APPROPRIATIONS OF PROFITS:					
Invested in business by transfers to Reserves etc.:					
Pensions Reserve	—	—	—	90,000	35,000
General Reserve	70,000	100,000	50,000	60,107	50,000
Property Improvements Reserve	—	25,000	25,000	30,000	30,000
Increase in Profits carried forward	9,446	4,331	168	7,158	3,348
	£79,446	£129,331	£75,168	£187,265	£118,348
DIVIDENDS (*less* tax):					
5 per cent Cumulative Preference Stock	23,900	24,750	24,076	22,000	22,000
Ordinary Stock	89,578	92,400	92,400	79,200	79,200
	£113,478	£117,150	£116,476	£101,200	£101,200
	£192,924	£246,481	£191,644	£288,465	£219,548

high charge for taxation which prevents the company retaining a large enough proportion of its profits in the business to meet normal capital requirements. Details of Mr Tetley's statement at the company's meeting were on page VI of our issue last week.

Most of our space has been given to the accounts and the chairman's comments. Our best commendation of these accounts is that we hope to see other companies following the Tetley lead.

Money Market

Treasury bill applications totalled £240,380,000 and the market raised its bid to £99 15*s* 3*d* on January 18th. On that basis 62 per cent of requirements was obtained and the average rate reacted to 18*s* 11·05*d* per cent. The whole of the £170 million bills on offer was allotted and this week's offer is again £170 million. In general, money market conditions recently have been comfortable.

JOSHUA TETLEY & SON LIMITED

Financial Position at September 30th — **Statement 2**

	1951	1950	1949	1948	1947
	£	£	£	£	£
Current Assets:					
Cash	175,350	119,335	170,351	178,238	171,712
Government Securities	144,800	144,800	144,800	144,800	169,800
Trade Investments	3,440	3,440	3,440	3,440	—
Receivable from Customers and others and prepayments	448,220	406,011	434,202	440,006	399,337
Tax Reserve Certificates	—	—	170,000	170,000	180,000
	771,810	673,586	922,793	936,484	920,849
Stocks of Materials etc.	754,685	570,892	522,949	487,896	407,177
	£1,526,495	£1,244,478	£1,445,742	£1,424,380	£1,328,026
Deduct:					
Current Liabilities:					
Depositors	82,414	80,816	83,292	78,128	86,614
Payable to Suppliers and Others	243,041	208,856	243,257	122,635	146,345
Excise Duty payable	302,403	306,597	365,448	395,833	333,978
Current Taxation	351,615	254,543	308,084	269,224	266,970
Debenture Interest Accrued (net)	7,000	—	—	—	—
Dividends Accrued and Proposed (net)	61,145	69,831	69,831	60,055	60,055
	£1,047,618	£920,643	£1,069,912	£925,875	£893,962
Net Current Assets	478,877	323,835	375,830	498,505	434,064
Fixed Assets:					
Brewery, Licensed Properties, Plant and Machinery, etc. – see Statement 3 below	4,625,775	4,000,185	3,844,004	3,049,318	2,908,267
Investment in Subsidiary Company	132,066	94,566	96,781	91,989	94,578
	£5,236,718	£4,418,586	£4,316,615	£3,639,812	£3,436,909
Deduct:					
Provisions, Debentures and Mortgage:					
Provision for Future Taxation	176,000	170,000	144,000	203,850	158,485
Provision for Pensions	89,796	101,427	112,998	124,629	49,139
3½ per cent Mortgage Debenture Stock	550,000	550,000	550,000	450,000	450,000
4 per cent Mortgage Debenture Stock, 1976–86	800,000	—	—	—	—
Mortgage Loan	50,000	50,000	50,000	50,000	50,000
	£1,665,796	£871,427	£856,998	£828,479	£707,624
Net Assets	£3,570,922	£3,547,159	£3,459,617	£2,811,333	£2,729,285
Ownership Equities:					
5 per cent Cumulative Preference Stock	900,000	900,000	900,000	800,000	800,000
Ordinary Stock	1,050,000	1,050,000	1,050,000	900,000	900,000
Profits and Reserves Invested in the Business	1,620,922	1,597,159	1,509,617	1,111,333	1,029,285
	£3,570,922	£3,547,159	£3,459,617	£2,811,333	£2,729,285

Brewery, Licensed Properties, Plant and Machinery at September 30th — **Statement 3**

	1951	1950	1949	1948	1947
	£	£	£	£	£
Original Cost or Book Value:					
Brewery Land and Buildings	475,805	469,429	450,343	444,219	441,487
Licensed Properties	4,466,821	3,835,467	3,657,816	2,914,691	2,780,967
Plant and Machinery	658,583	521,861	419,261	253,419	150,423
	£5,601,209	£4,826,757	£4,527,420	£3,612,329	£3,372,877
Deduct:					
Accumulated Depreciation Charged:					
Brewery Land and Buildings	250,319	240,320	225,741	212,331	201,007
Licensed Properties	484,526	423,636	357,168	310,325	263,603
Plant and Machinery	240,589	162,616	100,507	40,355	—
	£975,434	£826,572	£683,416	£563,011	£464,610
Balance of Original Cost or Book Value:					
Brewery Land and Buildings	225,486	229,109	224,602	231,888	240,480
Licensed Properties	3,982,295	3,411,831	3,300,648	2,604,366	2,517,364
Plant and Machinery	417,994	359,245	318,754	213,064	150,423
	£4,625,775	£4,000,185	£3,844,004	£3,049,318	£2,908,267

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Accountant in Industry

SIR, – I would like to compliment Mr Smallpeice on his excellent address reproduced in your issue of January 12th. I heartily endorse all his remarks and commend them to all young accountants.

I would also stress the change of attitude from academic concern with methods of presentation to intense concern with the results shown. This change will not mean any change of attitude towards the highest professional standards.

With reference, in the closing remarks, to the relationship with auditors, my former colleagues are now my auditors. Our personal relationships and discussions remain as friendly and frank as ever, but at the audit there is a realization that there has been a change of status. They are my auditors, and as such, approach my work and viewpoints with all due care and caution – perhaps with more in view of our previous association! By co-operating to the full, the audit becomes almost a pleasure for all of us.

Yours faithfully,

Neath, Glam. T. L. LEWIS.

Standard Costs: A Case of Eggs

SIR, – In his letter Mr A. Pakenham-Walsh proves to his own satisfaction that the loss of £10 by the failure to obtain and sell 480 eggs at 5*s* per dozen can only be worked out by standard costing. No doubt by the same process of reasoning he will require a 10-ton drop-hammer to find out the contents of the eggs he did manage to obtain from his hens.

Yours faithfully,

EGGSACTLY.

SIR, – In the example given in his letter published in your issue of January 19th, Mr Pakenham-Walsh says, 'It took standard costing to reveal the £6 loss.'

It is true that the failure to achieve the planned production of 720 eggs has resulted in failure to achieve the planned profit of £6, but I would submit that in this particular instance, the position could have been shown quite effectively, and much more simply, as follows:

	Actual	Budget	Over *Under* Budget
	£	£	£
Sales	5	15	*10*
Cost of Sales	9	9	–
Profit/*Loss*	£4	£6	£*10*

But neither standard costing nor budgetary control is a substitute for capable management, and in the example given, would the management wait until the end of the month before requiring to know that production was running at one-third of the planned output? Efficient management would surely have known at the end of the first week that the planned output was not being achieved, and would have taken *action*.

All accounts are 'historical' in the sense that they reflect past transactions, and it must be remembered that the techniques of standard costing and budgetary control can only be of use where they are based on an accounting system which produces prompt, accurate and reliable accounts. There can be no intelligible 'variances' without 'actuals'.

Yours faithfully,

London, W5. L. W. T. LANE.

Holiday Pay: Deduction under P.A.Y.E.

SIR, – With reference to 'Equity's' letter published in your columns on January 19th, 1952, the deduction of P.A.Y.E. when staff go on holiday is covered in the Inland Revenue's *Employer's Guide*, P7, April 1951, page 14, paragraph 56, part of which reads as follows:

> 'If, however, the effect of paying the holiday pay is that the employee receives two lots of pay in the same week and no pay in the following week, the Table for the following week may be used.'

It would therefore seem that, on this point at any rate, the application of common sense receives official approval.

Yours faithfully,

EMPLOYER.

Foreman's Incentive

SIR, – I shall be pleased to hear from any readers who can offer advice in connexion with bonus systems for a foreman in charge of nurseries under glass.

I have a client, specializing in the cultivation of carnations and tomatoes, who wishes to install such a system, preferably combining the following bases:

(*a*) total sales;
(*b*) savings in wages below a reasonable annual total;
(*c*) economy in fuel consumption.

How would target figures be set?

The nursery concerned has 22,000 sq. ft. under glass and the present yearly turnover is approximately £5,000, with annual charges of approximately £2,000 for wages (including foreman) and £370 for fuel.

The foreman will be in complete control of the nursery for about six months of the year while the proprietor is attending shows, and the above bonus is intended to supplement a weekly wage of £7 to £8, and free living accommodation.

Yours faithfully,

HORTICULTURIST.

Tax Time and Overtime

SIR, – I see that employees having the afternoon off to watch mid-week football matches are claiming overtime rates of pay if they make up the time lost.

My firm have a client, a chemist, who has received a demand for interest on income-tax paid shortly after the three-monthly period allowed, though at the time the tax was due and for a long period previously the national health service owed him continuously sums far in excess of the income-tax in question.

The trade unions support the first claim on the grounds that a national agreement cannot be broken: the Inland Revenue contend that the interest is chargeable as there is no statutory provision for waiving it. Both arguments seem equally ridiculous in the circumstances.

Yours faithfully,

London, EC1. R. A. DANIEL.

The Inspector of Taxes Interrogates

SIR, – In your issue for January 5th, 'Elbee' suggests that Andrew MacVerycareful delays his wedding until October 5th. I should like to point out that in weighing the pros and cons of such action he should bear in mind that a spring wedding offers a good chance of obtaining a further contribution from the Inland Revenue in the following March consequent upon the possible arrival of a little £70 allowance. This would be lost by an autumn marriage.

Yours faithfully,

Liverpool, 12. E. R. KERMODE.

Accounting Terminology

SIR, – From an advertisement in *The Times* last week:

'Small cosmetic company for sale – principal asset tax losses. . . .'

Yours faithfully,

London, EC2. R. KETTLE.

CURRENT LAW

Mortgage: Tenancy by Estoppel

In November 1948 a mortgagor contracted to buy a property which, although she had no right to possession, she purported to let to her sister, who went into possession on December 16th, 1948. The latter was not aware that the mortgagor had no title. The purchase was completed on December 28th and the mortgage on the 29th. The mortgagor failed to meet the payments, and the mortgagees claimed possession.

The Court held that there was nothing to show that the conveyance and the mortgage were part of the same transaction, and there was a period in which the fee simple was vested in the mortgagor unencumbered. As the letting took place during this period the tenant's title to a lease was completed by estoppel and took priority over the mortgage. (*Universal Permanent Building Society v. Cooke* (*Law Times*, November 16th, 1951).)

Company: Removal from Register

In July 1948 a company sold its undertakings and, in accordance with Section 353 (5) of the Companies Act, 1948, the Registrar removed its name from the Register, and on the day on which this took effect the company became dissolved by publication in the *Gazette*. The company had been assessed to tax, which at the date of the dissolution was under appeal. As the result of the dissolution the appeal could not proceed and the Revenue could not enforce the tax liability; nor could they proceed by petition under Section 353 (6). They tried to do so, therefore, under Section 352 (1).

The Court held that the Court had jurisdiction to restore the company's name to the Register. (*Re Belmont & Co Ltd* (*Law Times*, Nov. 16th, 1951).)[1]

[1] This case is referred to at page 79. – Editor.

Restraint of Trade

In *Whitehill and Others v. Bradford* (*Solicitors' Journal*, November 17th, 1951) Danckwerts, J., held that a partnership agreement was not in restraint of trade which provided that a retiring partner should not practise for twenty-one years in medicine, surgery or any branch thereof within ten miles of Atherstone parish church. The learned judge found that the plaintiffs had shown that the restraint was not wider than was necessary for the protection of the practice and accordingly granted an injunction in their favour.

In *Vettese v. Vettese* (*Law Journal*, November 23rd, 1951) the Outer House of the Court of Session found against a retiring partner in a firm of *restaurateurs*. One partner bought out the other and the latter undertook not to open up in business within a distance of 400 yards from the site of the existing business. The retiring partner's wife, however, opened two businesses of a similar nature within the prohibited area and put her husband in to manage them.

The Court refused to listen to the argument of the retiring partner that the undertaking was too wide, as it applied to any kind of business, but held that this meant business in the nature of *restaurateur*. Moreover, it declined to accept the view that the prohibition meant opening up in business on his own account. And it found that the respondent had 'acted in such a way as to transgress the undertaking which he gave to his brother' (the remaining partner).

Claim Against Travel Agency

In *Stedman v. Swan's Agency* (*Solicitors' Journal*, November 17th, 1951) the plaintiff contracted with the defendants for a party of six to be taken to Jersey by air and provided with accommodation in

a first-class hotel in superior rooms with a sea view. On arrival they found that the rooms were inferior and had no sea view. They could not find alternative accommodation and their holiday was spoilt. The plaintiff claimed damages for breach of contract and fraud and Romer, J., awarded him £13 15*s* as special damages, refused general damages and dismissed the claim in fraud.

The Court of Appeal held that damages were recoverable for appreciable inconvenience and discomfort and awarded the sum of £50 in addition to that already awarded. Singleton, L.J., and Danckwerts, J., thought that a case of fraud was made out, but did not think that the judgment of the lower Court in this respect should be disturbed. Birkett, L.J., thought that the case in fraud failed. (*Solicitors' Journal*, November 17th, 1951.)

Company's Statute-barred Debt

In *Re Art Reproduction Co Ltd*, the Court approved a statement in *Buckley on the Companies Acts* (twelfth edition, at page 634) to the effect that a statute-barred debt '*semble*, cannot even in a solvent voluntary liquidation properly be paid against the wishes of the contributories' and refused the appeal of a creditor for two debts which were barred by statute. Wynn-Parry, J., said that it would be quite illogical to have one rule in a compulsory winding-up and another in a voluntary. The word 'liabilities' in Section 302 was to be interpreted in the same way as that in Section 257 (1). (*Law Times*, November 23rd, 1951.)

Service of Writ

Section 437 (1) of the Companies Act, 1948, provides that 'A document may be served on a company by leaving it at or sending it by post to the registered office of the company'. The plaintiffs issued a writ against the defendants and sent it by registered post to the latter's registered office. It failed to reach them, having been declined by a saleswoman on a staff holiday. In the absence of appearance by the defendant, the plaintiffs signed judgment and issued execution. Only when the sheriff's officer entered the company's premises did the company learn what had happened. The master ordered that the judgment and execution be set aside on the ground that the service was irregular.

On appeal, Devlin, J., decided otherwise, in spite of an assurance that the order was in accordance with practice adopted since 1883. He held that the word 'post' was wide enough to cover registered as well as ordinary post. (*T.O. Supplies (London) Ltd v. Jerry Creighton Ltd* (*Solicitors' Journal*, November 17th, 1951).)

Bankruptcy: Relation Back

The Accountant for August 25th, 1951, dealt with the case of *Re Love, ex parte Official Receiver (Trustee) v. Kingston-upon-Thames County Court (Registrar)*, in which Danckwerts, J., found against the trustee in the following circumstances. A debtor committed an act of bankruptcy. His furniture was seized by the high bailiff in respect of an unpaid fine of £10 for contempt of court. Four days before the high bailiff sold the furniture, having no knowledge of the act of bankruptcy, a petition was presented. A month later a receiving order was made and, in due course, the debtor was adjudicated bankrupt. The trustee sought to recover the £10.

The Court of Appeal dismissed his appeal, holding that where a creditor had completed execution within the meaning of Section 40 (1) and (2) of the Bankruptcy Act, 1914, before the date of the receiving order and before notice of the presentation of a petition or of the commission of an act of bankruptcy, the creditor was entitled to retain the benefit of the execution. He was not affected by Section 37 (1), even though the act of bankruptcy was committed before the execution was issued. (*Law Times*, November 30th, 1951.)

Legacy to Wife: Satisfaction

The marriage of a testator was dissolved and he settled securities, the income from which was to provide an income for his wife of £3 per week. He remarried and made a will by which he constituted a trust fund to provide certain annuities, one of which was of £3 a week to his first wife so long as she remained unmarried. There was no direction in the will to pay debts. The question for the court was whether the gift in the will was in satisfaction of the covenant under the settlement.

Harman, J., held that it was. He said that the presumption of satisfaction was disliked by judges and was rebuttable. No case had been cited where the presumption had been rebutted in the absence of a direction to pay debts; but the vital point was whether the gifts were equally valuable. In his view, the testator did not intend to give his first wife more than he had covenanted to pay under the settlement, and accordingly the presumption of satisfaction applied. (*Re Haves: Haves v. Haves* (*Solicitors' Journal*, November 17th, 1951).)

Refusal of Ship to Deliver Goods

In *Trucks & Spares Ltd v. Maritime Agencies (Southampton) Ltd* (*Law Times*, November 23rd, 1951) one H. shipped goods from Southampton to Canada and the carriers by arrangement retained the bills of lading against H.'s indebtedness to them on general account. The carriers refused to deliver the goods to the plaintiffs on their arrival in Canada, and were directed by an interim mandatory order to do so.

The Court of Appeal (Hodson, L.J., dissenting) held that before such an order could be made, the applicants had to show proof of title. This could only be done by the production of the bills of lading and the fact that the defendants were themselves responsible for the inability of the plaintiffs to do this did not alter the position.

NOTES AND NOTICES

Personal

MR E. L. BECKER, B.A., A.C.A., announces that he has taken over the practice of the late Mr G. HALLIWELL, of 7 Tithebarn Road, Southport. This practice will be amalgamated with Mr BECKER's present Southport practice of THURMAN, BECKER & Co, at Barclays Bank Chambers, 353 Lord Street, Southport. Mr BECKER's Bolton practice will continue under the name of F. H. PARKINSON & Co at 1–2 Corporation Chambers, Corporation Street, Bolton.

MESSRS THOMAS BOWDEN, SONS & NEPHEW, Chartered Accountants, of 42 Mosley Street, Newcastle upon Tyne, and 5 Cattle Market, Hexham, announce with deep regret the death on January 17th, 1952, of Mr GRAHAM ADAM, M.C., F.C.A., who had been a partner in the firm for twenty-five years. The practice will be continued by the remaining partners, Mr WILLIAM PATTERSON, F.C.A., and Mr HAROLD MURRAY, A.C.A.

MESSRS NEWPORT NELSON & Co (A. E. TURBERVILLE & Co), Chartered Accountants, of 79 Bishopsgate, London, EC2, announce that they have admitted into partnership, as from January 1st, 1952, Mr ERIC D. COX, A.C.A., and Mr DAVID J. HAY, A.C.A., who have both been members of their staff for some years. The firm will continue under the same name as hitherto, Mr L. T. NEWPORT, F.C.A., and Mr E. J. NELSON, F.C.A., remaining the senior partners.

MESSRS FARROW, BERSEY, GAIN, VINCENT & Co, Chartered Accountants, of 53 New Broad Street, London, EC2, announce with regret the death on January 19th, 1952, of their partner, Mr STANLEY HOWARD BERSEY, O.B.E., F.C.A. The practice will be continued under the same firm name by the remaining partners.

MESSRS SHARP, PARSONS & Co, Chartered Accountants, of 120 Colmore Row, Birmingham, 3, and of London, announce that they have admitted Mr FRANK WILLIAM GUEST, A.C.A., as a member of the partnership from December 4th, 1951. Mr GUEST has been with the firm for the past twenty-five years, first as an articled clerk and subsequently as a senior member of the staff.

Chartered Accountant Students' Society of London

The honorary secretary of the Society announces that, through an unexpected difficulty, it has been necessary to alter the place and time of the meetings on Monday, January 28th, and Monday, February 4th. The lectures on 'Income-tax relief for losses' and on 'Partnership assessments' will now be given in Hall 47 at Winchester House, London Wall (Corner of Old Broad Street) and will begin at 5.45 p.m.

Professional Note

Mr L. W. Farrow, C.B.E., F.C.A., senior partner of Farrow, Bersey, Gain, Vincent & Co, Chartered Accountants, of London, has accepted an appointment as financial consultant to Paterson, Laing & Bruce Ltd. Mr Farrow's partner, Mr R. L. Harrison, M.A., A.C.A., has been appointed alternate director to Mr E. A. Head, managing director of the company.

Obituary

GRAHAM ADAM, M.C., F.C.A.

It is with very deep regret that we announce the death of Mr GRAHAM ADAM, M.C., F.C.A., which occurred on January 17th at his home in Newcastle. He was 61 years of age.

Mr Adam was a member of the Council of The Institute of Chartered Accountants in England and Wales, to which he was elected on February 2nd, 1944, and senior partner in the firm of Thomas Bowden, Sons and Nephew, Chartered Accountants, of Newcastle upon Tyne and Hexham.


Mr Graham Adam, M.C., F.C.A.

An operation last year had prevented Mr Adam from pursuing his wide professional and other activities for some months, but his many friends were delighted that he and Mrs Adam were able to attend the autumnal meeting of the Institute held in Torquay last October.

Admitted an Associate of the Institute in 1921 and elected a Fellow eleven years later, he had been a partner in his firm for twenty-five years. He was a member of the Finance and District Societies Committees of the Council of the Institute, and had been Vice-Chairman of the Applications Committee since July 1950. He had been auditor to Newcastle Corporation since 1935.

Mr Adam was awarded the M.C. and Bar whilst serving in the First World War, during which he was twice mentioned in dispatches. He enlisted in the Home Guard early in the last war and became Major commanding company 'B' of the 12th Battalion, Northumberland Home Guard.

Among his many interests outside his professional life were the chairmanship of the Old Rutherfordians Association; membership of the Committee and House Committee of the Northern Conservative and Unionist Club; membership of the Chartered Accountants' Lodge, and of the Chartered Accountants' Dining Club. He was also a member of the Tyneside and Ponteland Golf Clubs.

It is true to say that he entered whole-heartedly and with zest into all his activities, professional and

other, and that he had gained a well-deserved popularity among the many members of the profession with whom he shared numerous interests.

His wise counsel and his warm friendship will be very greatly missed.

JOHN SELL COTMAN, F.C.A.

We record with regret the recent death in London of Mr John Sell Cotman, F.C.A., formerly senior partner of Messrs Cotman, Hooper & Co, of London.

Admitted an Associate of the Institute in 1899, Mr Cotman was elected a Fellow in 1904. He commenced in practice with Mr Lionel Fairfax Goodricke, F.C.A., in 1899, at Dashwood House, New Broad Street, London.

Mr Cotman, who was a prominent Freemason, retired from the firm in 1924. He was a past Master of the Vintners' Company, Governor of the Sir John Cass Foundation, and treasurer of Epsom College, Surrey.

ARTHUR HAMILTON WHITESIDE, F.C.A.

It is with regret that we record the death of Mr Arthur Hamilton Whiteside, F.C.A., who died in the recent plane crash in North Wales when returning to Dublin after a business visit to London.

Mr Whiteside, who was admitted to membership of The Institute of Chartered Accountants in Ireland in 1931, was senior partner of Messrs Whiteside, Gullinan & Co, Chartered Accountants, of 3 College Green, Dublin. He also held directorships of many companies.

A versatile sportsman, Mr Whiteside, who was 43, was at one time a member of Lansdowne Football Club; he was also a keen swimmer and golfer and was a member of the Golfing Society of the Irish Institute.

JOHN GEOFFREY ROWE ORCHARD, F.C.A.

We have learned with regret of the death of Mr John Geoffrey Rowe Orchard, F.C.A., while on a cruise to the West Indies which he had undertaken for health reasons.

Mr Orchard, who was born at Plymouth in 1903, was educated at Malvern College and served his articles in London with Messrs Nevill, Hovey, Gardner & Co. He was admitted an Associate of the Institute in 1926 and commenced in practice in Exeter later that year, being principal firstly of Messrs Orchard & Rigby and subsequently of Messrs Orchard & Hamlin until 1940.

In 1930 he was elected to the Exeter City Council and was Sheriff of the City in 1937. After service in Malaya with the Observer Corps during the Second World War, Mr Orchard returned to Exeter and in 1946 was elected an Alderman of the City. Four years later he became Mayor, and he was Deputy Mayor at the time of his death.

Mr Orchard was Chairman of the Conservative Party in Exeter and a Freemason.

WILLIAM MARSH GOOD, B.A., A.C.A.

It is with regret that we record the death at the age of 36 of Mr William Marsh Good, B.A., A.C.A., who was a passenger in the plane that crashed recently in North Wales on a flight from London to Dublin.

Mr Good was educated at Marlborough College and Oxford University, where he gained an honours degree in jurisprudence. He was admitted an Associate of the Institute in 1939 and during the war served in various administrative positions in concerns engaged in war production.

He held the controlling interest in the Tokenhouse Securities Corporation Ltd and in the Irish associated company of Tokenhouse Securities (Ireland) Ltd, and was managing director of the Irish firm of Lincoln and Nolan Ltd, motor engineers, and of other Irish companies.

Fire Services Statistics, 1950–51

In previous years, fire service details of county and county borough authorities in England and Wales have been produced independently: county statistics were published by the Society of County Treasurers, and county borough statistics by the Institute of Municipal Treasurers and Accountants. Now, for the first time, the Institute and the Society have combined to publish jointly the 1950–51 Return of Fire Services Statistics.[1]

The analysis of expenditure and income, which forms the main basis of the Return, is expressed as a cost per 1,000 population, and of the county boroughs the Return shows Bootle, with a net rate-borne expenditure of £451 14s per 1,000 people, as that paying the highest figure for its fire services. The lowest rate-borne expenditure was in Leeds and amounted to £137 8s per 1,000 people.

Of the counties the highest rate-borne expenditure was in Glamorgan and amounted to £277 1s per 1,000 population, while the figure for Denbigh and Montgomery at £145 19s was the lowest.

The London County Council figure for the period amounted to £385 1s.

[1] The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, SW1, and the Society of County Treasurers, 20 Vauxhall Bridge Road, London, SW1. Price 2s 6d net.

Distribution of German Enemy Property

The Board of Trade announces that from February 1st, 1952, and for the following three months, the Administrator of German Enemy Property is authorized to accept claims under the Distribution of German Enemy Property Act, 1949, in respect of German enemy debts. Claim forms are now available and can be obtained, on application, from the Administrator of German Enemy Property, Branch X, Lacon House, Theobald's Road, London, WC1.

Different forms are provided for:

(1) Claims in respect of German Reich Bonds (i.e. Konversionskasse 4 per cent Sterling Bonds, enforced bonds of the Dawes, Young and Austrian 5 per cent loans, and enfaced Austrian Government Credit Anstalt Bonds).
(2) Claims in respect of non-Reich sterling bonds quoted on the Stock Exchange.
(3) Claims by bankers under the standstill agreement.
(4) All other claims.

When applying for forms, intending claimants should state the forms they need, or if in doubt, should give brief particulars of the debt or debts in respect of which they propose to claim.

Course of Taxation Lectures

It is proposed to hold at Kingsway Hall, Kingsway, WC2, a course of seven lectures, on taxation law and practice, as detailed below. All lectures will commence at 6.15 p.m. and will be for 1½ hours, including time for questions.

The lectures will take place on Wednesdays, commencing February 20th, 1952, and the lecturers will be Mr Percy F. Hughes, A.S.A.A., F.C.I.S., Assistant Editor of *Taxation*, and Mr T. L. A. Graham, A.S.A.A., of *Taxation*.

The seven lectures are as follows: (1) 'Capital allowances', by Mr Graham; (2) 'Some points on back duty', by Mr Hughes; (3) 'Taxation of profits from property transactions', by Mr Graham; (4) 'Income-tax consolidation bill', by Mr Hughes; (5) 'Revision of assessment', by Mr Graham; (6) 'Settlements and sur-tax', by Mr Hughes; (7) 'Profits tax', by Mr Graham.

These lectures should be of value to students preparing for the various professional examinations, supplementing their studies and presenting the practical aspect of the subject.

To practitioners, the lectures should present an opportunity of revising and bringing up to date their knowledge of the subject.

Light refreshments at reasonable prices will be obtainable on the premises between 5 p.m. and 6 p.m. before each lecture.

The fee for the course is £1 1*s* and applications for admission cards for the lectures, together with remittance, should be sent to Mr Ernest T. Green, F.C.C.S., Kingsway Hall, Kingsway, London, WC2. Telephone: Holborn 8860. Cheques should be made payable to 'Ernest T. Green'.

Recent Publications

OFFICE MANAGEMENT. 56 pp. 10×6. 7*s* 6*d* net. Office Management Association Ltd, London.

THE LAW OF WILLS. Second Edition, by R. Cross, M.A., B.C.L. vii+96 pp. 7½ × 4½. 6*s* net. Stevens & Sons Ltd, London.

HOTEL ACCOUNTS, by T. J. Barrett, F.A.C.C.A. 84 pp. 9×5½. 17*s* 6*d* net, 18*s* post free. Gee & Co (Publishers) Ltd, London.

LORD PLENDER, SOME WRITINGS AND SPEECHES, edited by Lady Plender. 144 pp. 9×6. 10*s* 6*d* net, 11*s* post free. Gee & Co (Publishers) Ltd, London.

RANKING & SPICER'S COMPANY LAW. Ninth Edition, by H. A. R. J. Wilson, F.C.A., F.S.A.A., and T. W. South, B.A., Barrister-at-Law. xxxvi+574 pp. 10×7½. 25*s* net. H.F.L. (Publishers) Ltd, London.

Our Contemporaries

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (December 1951.) 'Financial Statements for the Smaller Company', by R. W. Hamilton, B.COM., C.A.

THE COST ACCOUNTANT. (January.) 'Work Measurement' by D. J. Desmond, M.SC., M.I.E.E.

Other Publications Received

TAX BULLETIN OF THE CANADIAN TAX FOUNDATION (Toronto.) (November–December.)

N.A.C.A. BULLETIN. (New York.) (December 1951.)

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF JANUARY 27TH, 1877

A review of

Accountants' Directory for 1877

We notice that Mr Alfred C. Harper, the painstaking secretary of the Society of Accountants in England, has issued his *Accountants' Directory for 1877* without the diary that has hitherto accompanied it. As it is, it contains, first, a list of accountants in London, the members of the various institutes and societies being specially marked; a list of accountants in England, one of those in Scotland, divided according to the towns to which they belong, and a list appertaining to Ireland; in all, the members of societies being distinguished from non-members. Then comes another list of accountants in England with, first, the chief towns alphabetically arranged, and second, a similar arrangement of the counties for the special behoof of the small towns. Altogether, a more complete guide could scarcely be devised, so that we can recommend every accountant to purchase a copy.

The Accountant

ESTABLISHED 1874

FEBRUARY 2ND, 1952 VOL. CXXVI NO. 4024

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TAXATION OF BUSINESS

VIEWS OF CHAMBERS OF COMMERCE

THE partial abrogation by the CHANCELLOR OF THE EXCHEQUER this year of the custom of refraining from anticipating the Budget speech has enabled pre-Budget representations to be made to him with added point. A letter addressed to him at the end of last month by the President of the Association of British Chambers of Commerce strongly criticizes the new excess profits tax which he has promised shall be in operation from the beginning of this year and argues that all so-called excess profits taxes, in whatever country, have so far been a failure. The computation of the excess depends on the accident of good or bad profits in the standard period, while as the tax always operates in an inflationary period the apparent excess profits, measured in terms of money, are often only an automatic reflection of the fall in purchasing power of that money, so that the tax becomes in effect a tax on capital instead of income. Moreover, the tax removes incentive to managerial economy and efficiency.

In the Association's view the way to control armament profits is by careful negotiation of the munitions contracts themselves, coupled with an appropriate monetary policy, rather than the imposition of a clumsy tax which, it says, does more harm than good. If, the Association asserts, economic conditions were decisive, the excess profits tax proposal would be dropped.

Recommendations on profit taxation

Should an excess profits tax be unavoidable, the Association hopes that there will be an ample choice of standard, with substituted standards for hard cases, that the rate will leave a margin for incentive, that there will be a ceiling for combined taxes, and above all that any capital element will be excluded from taxable profit. It is suggested that profits tax in its present form be abolished, along with the existing contingent liability to repay non-distribution relief already allowed. The proposed excess profits tax should take care of excessive distributions so that profits tax should not in any case exceed a rate of 10 per cent.

Profit taxation in inflation

The Association takes up the Government on its avowed intention 'to revise the existing system of taxation on commercial and industrial profits' and to give relief where profits are ploughed back and used for the renewal of plant and equipment. It considers this problem too urgent in the present inflationary trend to await the report of the Royal Commission on the Taxation of Profits

and Income. It hopes that the principle contended for by it in evidence to that Commission will be recognized in the coming Finance Act, particularly as the ground has been to some extent cleared by the complete abolition of initial allowances in respect of expenditure after 1951–52 (notwithstanding the Millard Tucker Committee recommendation that initial allowances be extended). Earlier last month the Association submitted to the Royal Commission a second instalment of evidence which took the form of reasoned criticisms of those parts of the Millard Tucker report with which the Association did not agree. A good deal of space is given in this new evidence to the problems of profit computation in times of inflation, to which is added a twelve-page technical annexe showing in detail how additional allowances in respect of stock and fixed assets could be computed. The Association feels that witnesses who addressed the Millard Tucker Committee on the inflation aspect failed to make the Committee understand the point involved and accordingly it returns to the charge before the Royal Commission. Briefly, the suggested methods of dealing with rising prices of stock are three, at the taxpayer's option, namely: (1) to create a capital reserve by charging current replacement costs of stock consumed, (2) to create a LIFO stock reserve, and (3) to value a normal or 'base' stock at a fixed price so long as the business continues. As regards fixed assets, the existing annual allowances could be adapted by being multiplied by a factor to represent the current inflation.

Arbitrary power vested in the executive

The Association recommends the repeal of two controversial sections of the Finance Act, 1951, namely Section 32 which enables the Inland Revenue to impose adjustments where they consider that the main purpose of a transaction was the reduction or avoidance of profits tax, and Section 36 which vetoes the emigration of businesses and the creation or transfer of shares and debentures in overseas subsidiaries, without the permission of the Treasury. As to Section 32, the Association considers it fundamentally wrong to permit an executive to have discretionary taxing powers and be judge in its own cause; it is for the Legislature to lay down what transactions shall attract tax. Section 36, it is argued, is despotic in character and will do harm to invisible exports and drive away potential industries. These matters also are regarded by the Association as urgent.

Death duties

The Association raises with the CHANCELLOR the problem of the deleterious effect of the estate duty on family businesses, particularly as a result of the complicated and harsh provisions of the Finance Act, 1940. It considers that the attempt to answer this criticism in the Inland Revenue's Statistical Investigation[1] was unrealistic in view of the inappropriate sample taken for the purpose of that investigation. The rise in rates of duty do not give a complete picture; owing to the general rise in values of business assets, a much greater proportion of them would go in duty than pre-war even if the pre-war rates had been retained. The Association submits that the problem should be examined in all its repercussions, that Sections 46 and 55 of the Finance Act, 1940, should be confined to pure avoidance transactions, that duty on business interests be payable in instalments, and that the first £2,000 of all estates be exempt.

The basis year for income-tax

In its further evidence to the Royal Commission, the Association takes up the cudgels again in favour of the adoption of the current-year basis for the assessment of business profits, notwithstanding the rejection of this change by the Millard Tucker Committee. While not presuming to dispute the evidence of the Inland Revenue on the magnitude of the difficulties of administration, the Association points out that some of it is overstated, for example, in relation to Budget estimates, and that that weakens conviction on the remainder of the Revenue's arguments. Pending the introduction of the current-year basis, the Association suggests to the Royal Commission the correction of some existing anomalies; notably the taxing of the profit of a part of a business after that part has been disposed of, and the confining to the Revenue of the option to base the penultimate assessment on the actual profits. A possible future anomaly is pointed out, namely the fortuitous allowance of a deduction for excess profits tax, either against two years' assessments, or against no assessment at all,

[1] Cmd. 8295. H.M.S.O. 6*d* net. See *The Accountant*, dated July 21st, 1951, at page 49.

depending on whether the accounting year forms the basis of more than one assessment year or does not form the basis for any year.

Loss relief

The Association removes some misconceptions about the proposals that the taxpayer should be allowed to carry losses back for six years, as well as forward. It was not contemplated that past years' assessments be reopened; the relief would simply consist in repaying tax, at the rate in force for the year of loss, up to the limit of the tax paid on income from all sources during the previous six years.

The Association points out, in our opinion rightly, that the objection about a company having distributed profits of these previous years arises from a fallacy, and that the fact of income-tax having been repaid to exempt shareholders is irrelevant. We might add that if this latter fact were relevant, it must apply equally to the present practice of carrying loss forward, since a company is not bound to apply its current profits in making up past losses, but can distribute them as dividends although they are in effect tax free. The Revenue does not in such cases refuse repayment to exempt shareholders, nor does it decline to take sur-tax on the dividends of those shareholders who are liable to it.

Other recommendations

The Association pursues its attack on the *Law Shipping* decision and questions the Millard Tucker Committee's argument that depreciation allowances on buildings be confined to first cost. It deals with the vexed problem of premiums on leases and hopes that an amendment of the Town and Country Planning Act, 1947, will solve the problem of whether development charge should rank for depreciation allowance. This stimulating evidence will no doubt give rise to some interesting discussions when (and if) it is considered by the Commission in public.

The T.U.C. and the Royal Commission

Another body which has recently submitted additional evidence to the Royal Commission on the Taxation of Profits and Income is the T.U.C. General Council. Perhaps the most controversial item in it is a proposal for the taxing of net gains from the sale of capital assets. The Council says that the purpose of such practices as the short-term speculative buying and selling of shares, house property and other assets is often to get untaxed income. It therefore suggests that the capital gains tax should distinguish between the speculator and the bona-fide long-term investor by falling more heavily on gains from assets which had been held for only a short period. Losses of the same order would be available for carry forward against gains, subject to a time limit. The rate of tax would be determined independently of the income-tax standard rate, although no reason is given for this. The Council adds that administrative problems of collection would probably mean setting a minimum level below which net capital gains would not be taxable. Other gains on which the T.U.C. has an eye are those from lotteries, betting, and gaming, which it would treat as a special category of short-term capital gains, with their own provision for the carry forward of losses, again subject to a time limit. This last proposal is a little puzzling. There are few gambling activities which can be carried on without any expense at all, from which it would seem to follow that for the country as a whole, losses must exceed gains, after expenses are paid. As inevitably some gains will escape the net, even if no exemption limit is allowed, and all losses will be conscientiously returned, however small, it is difficult to see how the Treasury will benefit, except in the case of very large prizes which exceed all subsequent losses in the time limit.

The T.U.C. adds its voice to those who recommend that the difference in effective taxation for earned and unearned incomes should not be confined to the first £2,000 of earnings but should extend through the whole range of income, increasing progressively. It would bring this about by abolishing the existing earned income relief and substituting separate rates for earned and unearned incomes. This would certainly remove the sharp increase in rate when a man's earnings go over the £2,000 mark. The T.U.C. has already suggested a smoother graduation of rates below the standard rate.

In any eventual reduction of the income-tax burden, remote though it may seem at present, the T.U.C. would give priority to an increase in the exemption limit and in the personal allowances, rather than a reduction in rates.

EXCESS PROFITS TAX
THE SOCIETY'S MEMORANDUM

THE Society of Incorporated Accountants and Auditors has recently submitted to the CHANCELLOR OF THE EXCHEQUER a memorandum on the projected excess profits tax. After reviewing similar taxes imposed in this country in the two world wars, it points out the unprecedented heights of the rates of tax now already in operation, particularly on individual traders and firms, the whole of whose income is taken into account for sur-tax, and concludes that in their case the possible additional yield of an excess profits tax would hardly justify the labour and expense of computation. The memorandum adds that the same argument would apply to private companies, at least where the profits of these were fully reflected in the tax returns of the individual proprietors. Consequently, if an excess profits tax must be imposed, the Society would confine it to public companies and a few of the larger private companies. Developing the theme of the present high tax rates, the memorandum mentions a factor which has already been discussed in these columns, namely the danger that when company profits are distributed in a period when there is no income-tax assessment against which to set off the profits tax distribution charge, the effective combined rate of tax on those profits may be brought up to over 92 per cent. The existence of a contingent liability, for an indefinite duration, to pay distribution charge will render it difficult, in the Society's opinion, to make the new excess profits tax an alternative tax to the existing profits tax, unless this contingent liability to pay 40 per cent of excess distributions were preserved independently – a device which would involve grave complications both in legislation and in operation. If this device were not adopted, however, companies which transferred, as it were, to the new excess profits tax would automatically gain immunity from a contingent liability to which other companies would be subject. For our part we do not feel that this is an insuperable obstacle.

The memorandum assumes that excess profits will be calculated by reference to the statutory profits of some previous period. It points out that these statutory profits may well be artificially depressed by the large deductions for initial allowances, and that the written-down value for tax purposes of the assets concerned would thus be artificially depressed in the excess profits tax periods, consequently reducing the depreciation allowances and therefore inflating the profits of those periods. This it considers would be a 'palpable inequity' and accordingly the memorandum urges that for excess profits tax purposes the capital allowances of both the standard and the chargeable periods should be recomputed.

The last excess profits tax operated from April 1st, 1939, and the choice of standard period was in general restricted to the years 1935 and 1936. The year 1937 could be brought in only in arriving at an average for two years. The intervening gap was a period of partial rearmament and gradually increasing prices. The Society argues that for the excess profits tax which is to operate from January 1st, 1952, it would be inequitable to have such a gap. If industry is not to be entitled to choose 1951 as a standard period, this will mean, in the Society's view, that yield from the new levy is deemed of more importance than equitable considerations or the risk of seriously accelerating the depletion of industrial equipment and resources.

Company profits, inflated by adherence to traditional accounting principles, have been taxed at a minimum combined rate of 52·75 per cent. This, combined with the sharp rise in price of capital goods has already prevented industry from carrying out much needed capital re-equipment and expansion. When the period of rearmament ends, the need for this re-equipment will be pressing, but the Society argues that new taxation of significant amount will deny to industry any possibility of accumulating the necessary savings and resources for this.

The memorandum contains a summary of conclusions which, apart from those already indicated above, include the following:

(a) The tax should be confined to companies undertaking armaments work, to a substantial extent.
(b) Any statutory percentage on capital employed should recognize special risks.
(c) The rates of tax should be within the range 40 per cent to 60 per cent.

INLAND REVENUE REPORT

THE ninety-fourth annual report of the Commissioners of Inland Revenue, which covers the year 1950–51, was published on Thursday as a Blue Book[1]. It extends to 180 pages, of which about three-quarters are devoted to ingeniously contrived tables containing a bewildering mass of detailed information, especially about incomes. The total net receipts amounted to over £2,000 million, of which nearly three-quarters represented income-tax. Profits tax produced £259 million, sur-tax £120 million and death duties £185 million. Repayments deducted in arriving at these figures amounted to £218 million. The cost of collection increased from 2·6 pence per £ in the previous year to 2·7 pence per £.

The report contains a reference to the report of the committee appointed to review the department's organization and arrangements for transacting business, which is dated August 1950; the Commissioners say that they have already accepted and implemented a number of the Committee's detailed representations and that others are under consideration or have been noted for action at the appropriate time. The drive to increase the number of trained Inspectors of Taxes has obviously made progress, for during the year 267 Inspectors completed their courses and passed their final examination, while a further 244 completed the first stage and passed the preliminary examination. In addition, short residential courses were held for the younger men on the more advanced subjects, covering technical and legal aspects and the problems of office management.

The breakdown of total trade profits into trade groups which appeared in the ninety-second report is carried a stage further this year by the addition of the figures for 1949–50. A new feature consists of tables showing how these profits are arrived at; that is, various items of cost are shown as percentages of turnover, while information is given as to the percentage borne to turnover by profit distributed, after the manner of the cake-cutting statistics now so popular in company reports. The year 1949–50 showed a net increase in assessed profits over the previous year of £90 million, of which £25 million was for professional services, many of the trades having shown a decline, particularly entertainment and sport. The nationalized industries are not included but the report observes that the assessments on these for 1949–50 were mainly confined to Rule 21 assessments on interest paid.

There are some topical figures about the taxation of income from abroad. The income from abroad of concerns having their main business there, was £203 million for 1949–50, against £176 million in the previous year; these figures being net after the deduction of profits tax.

Turning to Schedule E, the tables show that although the number of employees was the same in 1949–50 as in 1948–49, their remuneration subject to P.A.Y.E. rose from £6,060 million to £6,468 million, the tax deducted rising from £440 million to £499 million. For the first time a regional analysis of these figures is given.

Statistics of assessments made by the department do not show the total incomes of individuals, since more than one assessment may apply to the same person, while of course much income is taxed at source. During 1950–51 a special census was taken in respect of the year 1949–50 of a 10 per cent sample of taxpayers, aggregating their total incomes by reference to their income-tax returns and other documents. The results have been checked where possible against independent estimates of the various totals, which has thrown up an omission, as compared with National Insurance statistics, of over a million married women in paid employment. Moreover, according to population statistics about 500,000 children have not been claimed for. No doubt many of these belong to taxpayers who are in any case exempt. Estimates based on the census show 7 million taxpayers with income not exceeding £250, out of a total of 20 million taxpayers with an average income of £415. However, income-tax, the great leveller, reduced the average to £360. The number of persons with very large incomes is decreasing rapidly, while the emphasis is swinging from unearned to earned income. The number who topped the £50,000 mark in 1948–49 was 257, in 1949–50 it was 209.

Four additional extra-statutory concessions are shown as being in operation at December 31st, 1950; they are reproduced on another page.

[1] Cmd. 8436. H.M.S.O. 6s, postage 3d. extra.

PROGRESSION IN PERSONAL TAXES

by E. B. NORTCLIFFE, B.Com., F.R.Econ.S.

The author is a member of the taxation department of a prominent international industrial concern and specializes in overseas taxation problems.

SEVERAL witnesses to the Royal Commission on Taxation of Profits and Income have drawn attention to the lack of smoothness in the personal scale of income-tax in the United Kingdom, especially below the sur-tax level. There is a widespread feeling that a standard rate of tax as high as 9*s* 6*d* in the £ should be approached more gradually, and the consequences of a system which reaches 9*s* 6*d* in two quick bounds have been adequately described by the witnesses, with special emphasis on the deterrent effects on additional earnings. The remedies suggested have been to apply further patches to the existing patchwork of the United Kingdom system, without any attempt to relate the whole income-tax scale to any kind of principle.

The object of this article is not to suggest specific remedies for the faults of the United Kingdom system, but to examine the underlying principles on which progressive tax systems are based, in the hope that the problem may be studied from a broader viewpoint than has so far been employed.

Progression in Principle

The basic principle underlying progressive systems of taxation is the economic assumption that each later unit of expenditure brings less real satisfaction than each earlier unit. It is not an unreasonable assumption, since most individuals are sufficiently thoughtful in their outlays to buy primarily those goods and services which needs or tastes lead them to prefer.

From this assumption it may be argued that, as far as the individual is concerned, the State may claim more tax from the second unit of income than from the first without the taxpayer feeling that tax on the second unit involves greater sacrifice than tax on the first. Progressive tax systems are therefore based upon equality of sacrifice, but not only in relation to the units of income of the individual. There is a further intention to achieve equality of sacrifice between individuals.

In practice it is generally assumed that a common scale of tax rates for all members of the community will ensure equality of sacrifice. There are often qualifications made to this assumption in the form of family allowances and reliefs, and sometimes, as in the United Kingdom, it is thought that equality of sacrifice demands two scales, one for those who 'earn' their incomes and one for the others. Broadly speaking, however, progressive tax systems follow the very practical, if unimaginative, legal convention that individuals are very much alike.

Establishing the Limits of a Progressive Scale

The problem for the legislator is to translate the concept of equality of sacrifice into an actual scale of tax rates, but first of all he must fix the limits to the scale. At the lower end the limit is usually decided by reference to the bare requirements for subsistence in various family circumstances. When incomes exceed these requirements they enter the taxable range and usually the initial rate of tax is by no means trifling.

In the United Kingdom, the first rate is effectively 12 per cent for earned incomes and 15 per cent for others. The following countries exhibit a similar tendency to relatively high starting rates:

	Per cent
New Zealand	22
United States of America	20
Canada	15
France	10
Republic of Ireland	13
South Africa	7½

The justification for these high initial rates may lie partly in an assumption that the satisfaction which can be derived from additional increments of income declines rapidly at the point where basic needs have been satisfied.

It is more than likely, however, that uppermost in the legislator's mind is the thought that there are far more taxpayers at this particular level of income than at any other. It is, therefore, the most profitable level to squeeze in the interests of revenue yield. Not all countries adopt this attitude; the scale in Australia, for example, starting at one penny in the £.

At the upper end of the scale, all countries stop short of complete confiscation, but there are remarkable differences of opinion as to the taxable capacity of the top brackets of large incomes:

	Income exceeding	Rate per cent
United Kingdom	£15,000	97½
United States of America	$200,000	91
Australia	£A10,000	82½
India	Rs150,000	82
Canada	$250,000	80
New Zealand	£NZ3,800	73½
South Africa	£16,000	75½
Republic of Ireland ..	£10,000	75
France	Frs.5,000,000	78

Rates up to 75 per cent or even 80 per cent may be justified by the yield of tax, but few incomes are ever reported which attract rates exceeding 90 per cent. In the United Kingdom, in particular, the yield of tax through continuing the scale to 97½ per cent, rather than stopping at (say) 87½ per cent, is trifling. In 1948–49 the yield appears to have been less than £5 million, against which must be set the considerable loss of revenue arising out of the dis-incentive effects of the highest rates, and the encouragement to alienation of the top brackets of large incomes.

Establishing the Progressive Scale

Having fixed the limits to the scale of taxes, the intermediate rates must be interpolated. The intermediate rates ought to reflect the precise decrease in satisfaction which each additional unit of income offers relative to the previous unit, but satisfactions do not lend themselves to precise measurement.

It is not unreasonable to assume, however, that the principle of progression should apply at every point in the scale. If any succeeding unit of income suffers only the same tax or less tax than the previous unit, it is a sign that the principle of equality of sacrifice has been abandoned at that point, and it is not easy to find justification for caprice of this description. The perfect scale of income-tax would therefore be minutely divided so that each unit of income bears a fraction more tax than the previous unit.

Some countries have attempted to lay down minutely divided scales (or 'unit scales') of this description. It is not generally practicable, of course, to incorporate in taxing Acts the voluminous schedules which would be required to show a separate rate of tax for each unit of income within the limits of the scale. The usual legislative device is to enact an increasing average rate of tax in a form easily explained by a simple formula. Thus, income-tax in the Union of South Africa is levied on taxable incomes at an individual's appropriate average rate, based on 1*s* 6*d* in the £ plus 1/1,000*d* for each £1 of income up to £16,000. A similar scale applies for super-tax.

Australia used a similar system until last year, but incorporated special features to improve the yield of the tax, as compared with the straightforward arithmetic progression of the South African scale. The British East African territories traditionally follow the same method, but in recent years the progression has been made so complicated that the legislatures have had to fall back on the cumbersome practice of publishing tables showing the tax payable at each level of income.

Types of Unit Progression

'Unit scales' are the purist systems of progression, but they can be constructed in an infinite number of ways. The basic principle of equality of sacrifice implies that each additional unit of income should bear more tax than the previous unit, but it offers no guidance as to how much more. The possible types of progression may be classified into three main categories:

(1) *Simple arithmetic progression under which the additional amount of tax payable is the same for each succeeding unit of income.*

The South African system uses this kind of progression. If the average rate formula is converted into tax for each succeeding £, we find that the first £ suffers 18·001*d*, the second 18·003*d*, the third 18·005*d*, the fourth 18·007*d*, and so on, each £ suffering ·002*d* more tax than the previous £.

In its interpretation of the principle of equality of sacrifice, such a system may be regarded as strictly neutral. Recognizing the impossibility of measuring exactly the sacrifices which may fairly be required from different £s, it adopts the middle road and assumes that the additional burden of tax which any £ can bear compared with its predecessor is a constant.

(2) *Progression by decreasing increments, under which the additional amount of tax payable diminishes with each succeeding unit of income.*

By adopting this method, the yield of the tax can be greatly increased since the increases in tax rates are more heavily concentrated in the lower ranges of income where they fall, of course, upon a greater number of taxpayers. It is far from easy to express a progression of this kind in a taxing Act. Australia achieved it, before 1950, by dividing the range of incomes into five parts. Within each part, the progression was a simple arithmetic one, but the unit of rate increase was lower in each succeeding division.

(3) *Progression by increasing increments, under which the additional amount of tax payable increases with each succeeding unit of income.*

This progression has no whole-hearted sup-

porters amongst revenue authorities. The largest increases in rate are concentrated where there are the fewest taxpayers, and therefore the yield of tax is poor. Instances of this kind of progression are to be found unexpectedly in many tax systems which are otherwise based on progression by decreasing increments. At two points in the Indian tax scale there is a temporary lapse into progression by increasing increments, and it is quite common to find one such lapse. Canada's lapse stretches over quite an important range of incomes, viz.: \$4,000–\$12,000.

The 'Bracket' System

Although most countries subscribe to the principle of progression in income-tax, there are very few 'unit scales' in the world. Nine countries out of ten divide the range of income into blocks or brackets and impose progressively higher rates of tax on each succeeding bracket of income. No one suggests that the real satisfactions to be derived from increasing increments of income can be bracketed in this way, but the system is convenient, easily understood, and easily applied.

Another less obvious justification for the bracket system is that if it is thoughtfully and skilfully constructed it can give substantially the same results as a parallel unit scale, both in yield of revenue and liability of the individual taxpayer. To achieve this, the most careful attention must be given to the range of income covered by each bracket, and the increases in tax rate from one bracket to the next.

Many of the defects of modern progressive tax systems, and certainly many of the defects of the United Kingdom system, are due to inattention to this point. The backbone of any progressive tax system should be a 'unit scale', the legislator deciding from the outset the kind of progression which is warranted by current economic and social conditions, and the concentration of the progression which will give the required yield of tax. The substitution of a bracket scale for the unit scale will then be a mere technicality.

The process can be illustrated simply by reference to the South African income-tax scale of which mention has already been made. The Union Legislature, instead of enacting a unit scale, might well have gone a step further and constructed a bracket scale. If they had divided the range of incomes (£1 to £16,000) into brackets of £500 with rates of tax starting at 1*s* 6½*d* on the first bracket, and rising by increments of 1*d* to 4*s* 2½*d* on the top bracket, no individual tax liability would have been more than £1 different from that given by the unit scale. The key to the size of the brackets and the amount of the rate increases is to be found in the extent of deviation from the unit scale which can be tolerated.[1]

The United Kingdom System

There is no denying that the United Kingdom scale is most irregular by any standards. Until the £2,000 level is reached there is hardly a hint of the underlying progressive principle. Apart from low rate relief on the first £250, the tax is a proportional one over a wide range of income, and moreover this is the range where most incomes are concentrated. There is an urgent need for the principle of progression to be accepted and applied throughout the whole income range, not merely above £2,000 and below £250.

The rapidity with which the United Kingdom scale leaps to 9*s* 6*d*, and the length of the interval before any further rise occurs, compares ill with the tax scales of other countries. In Canada the scale starts with two brackets of \$1,000, and continues by brackets of \$2,000 to \$10,000, and throughout this range the rate increase from one bracket to the next is never more than 4 per cent. The United States' scale consistently uses brackets of \$2,000 up to \$12,000, and again the rate increase never exceeds 4 per cent. In most countries it is noticeable that the emphasis on small brackets and low rate increases is to be found at the lower end of the tax scale. By this means they ensure that the deviation from the underlying unit scale is least in amount where relatively it makes the greatest difference to individual liability.

Above £2,000 the United Kingdom scale moves in brackets which do not involve unreasonable deviation from unit scale activities. For example, in the range of incomes £3,000–£6,000, no individual liability is more than £6·25 different from what it would be using a comparable unit scale based on a simple arithmetic progression.

[1] Those readers who wish to indulge in the pastime of constructing 'bracket systems' from basic unit scales may be interested in a formula with which it is possible to calculate either the size of the brackets which will conform to a predetermined margin of deviation, or alternatively, the deviation which will result from predetermined brackets:

If x = the rate of increase in a unit scale based on a simple arithmetic progression;

y = the size of the bracket of income;

and z = the margin of deviation from the unit scale, then:

$$y \text{ (bracket of income)} = \sqrt{\frac{8z}{x}}$$

$$z \text{ (margin of deviation)} = \frac{y^2 \times x}{8}$$

THE COMPANY PROSPECTUS – I

VIEWPOINT OF THE STOCK EXCHANGE

by F. R. ALTHAUS
Vice-Chairman, Quotations Committee, London Stock Exchange

As this is to be the first of a series of talks on prospectuses, I should like, if I may, to make a short digression from the strict letter of my brief in order to trace, very lightly, a little of the development of the joint-stock finance with which we are concerned today.

The corporate commercial life of this country had its beginnings in the towns in the twelfth and thirteenth centuries through the boroughs and merchant gilds. From the latter there sprang, in due course, the craft gilds. Still later, these, in their turn, divided into interests of master and man. Representative of the former were the great London livery companies. By the beginning of the sixteenth century there had been further development on the lines both of incorporated bodies and rudimentary partnerships. It was at this time that the accumulation of money in the hands of the public – as opposed to that at the disposal of bankers and money-lenders, or invested in real estate – first began to present its owners with an investment problem.

Oversea Enterprise

One of the forms in which this money came to be used was in the fitting out and equipping of privateering expeditions to the far corners of the earth. This was partly due to the great advances which had been made in navigation and shipbuilding. The move towards joint stock was encouraged around that time by the need to exploit grants, by the sovereign, of extensive powers and rights to merchant concerns operating overseas, and by the general extension of the partnership principle to commercial enterprises of this kind.

Towards the second half of the sixteenth century, many of these privateering expeditions were fitted out, and there started with them the joint-stock principle of pooling resources and rewards. Backers wanted to spread their risks because ships might run into a great deal of trouble with pirates and might do a little fighting of their own, and as the proceeds of the voyage might not be forthcoming for some years
constituted themselves a joint stock, and shared
sk and the profit. Joint-stock ventures grew
in[illegible]de, and in 1554 the Merchant
on-Tyne used the words
next big step forward
pany, for its 1617
in and put up
bscribers, and
vere 15 earls
and knights,
ociety of
13 countesses and ladies of quality, 18 widows and maiden ladies, 26 clergymen, 313 merchants, 214 tradesmen, and 25 'merchant strangers'.[1]

Domestic Enterprise

The enterprise of the country went on growing, and in the later years of the seventeenth century a number of prospectuses appeared with regard to commercial domestic enterprises. The first that came to my notice is of 1681, when the Scottish Clothing Manufactory sought £5,000 sterling. I hope I shall not offend the susceptibilities of any of my audience if I mention that this was at that time quite unaccountably the equivalent of £60,000 Scottish. With this capital they hoped to buy, equip and run twenty mills, employing 233 people, and they estimated that in a year they would make 55,823 ells of cloth, which they hoped – by a most ingenious calculation, doubtless formulated by their auditors – to sell for £55,823 Scottish. Even in this early promotion their native conservatism showed itself in the warning to subscribers that they would get no dividend for three years, and only 5 per cent for the next three.

Mushroom Companies

Company promotions continued apace and, with them, great activity for the earliest stockbrokers, of whom much was now beginning to be heard. At first, they had no market place of their own. They met at the Royal Exchange and then in the coffee-houses around Change Alley and elsewhere in the City. In those unenlightened days they were not as universally beloved and esteemed as they are today; in fact, in 1697 the first of a number of Stockjobbing Acts was passed, and it clipped their wings considerably.

This was the time when people felt that to have stock was better than to have money – we have heard of other occasions of that kind. Largely encouraged by the intense public interest in the South Sea Company, and by its apparently boundless success, a lot of odd promotions were put in hand. There were enterprises for freshening salt water, for fattening hogs, and for the import of jackasses from Spain to improve the breed of mules. The classic example is of the company which was formed to conduct 'an Undertaking of Great Advantage, but none to know what it is'. That company opened an office in Cornhill; it was to have a capital of £500,000 in shares of £100 each, on which £2 per share only was to be paid up in the first instance. On the first day 1,500 shares were subscribed, that is to say, £3,000. The office then closed and the promoters decamped, so there will be

[1] *Corporation Trust and Company*, by C. A. Cooke.

no difficulty in judging to whom the 'great advantage' was to accrue.

The Bubble Act

The boom went on, and it broke soon after the South Sea Company promoted the Bubble Act. The company did not want too much competition in its own stock racket. There was also a general feeling that the use of company stock for wild gambling was a bad thing, and the Bubble Act was particularly aimed at those who opened subscription lists for unincorporated joint-stock enterprises, on the ground that their activities were

> 'dangerous and mischievous and to the common grievance, prejudice and inconvenience of His Majesty's subjects, or great numbers of them in trade, commerce or other lawful affairs'.

People found ways to get round this, in part by becoming incorporated by private Act of Parliament, and for the next 100 years the vague drafting and widely differing interpretations of the Bubble Act left plenty of loopholes for a large number of flotations.

In 1820, when there was another boom, there were 250 companies waiting to be incorporated by Act of Parliament, but people did not worry about that, and there were many transactions in what was no more than an expectation of ultimate allotment. By 1824 boom flotations were in full swing. A statistician of that time collated the prospectuses, and he found that of the 600 companies floated in 1824–25, three-quarters had vanished by 1827 and practically the whole lot had gone out of business by 1843. There were a few survivors from this period, and they included the General Steam Navigation Company, the West India Dock Company, eight insurance companies, gas companies, and various canal and railway companies, including the London and Birmingham Railway. In the meantime, the collapse of the boom caused widespread alarm and despondency, and Mr Gladstone, in 1841, set up a committee to inquire into the Companies Act. In due course he himself took the chair, and the committee produced its report in 1844. As a result, six monumental Acts were passed, and, in fact, established the basis of modern company law. So if anybody asks you what Gladstone said in '44, you will at any rate know that he said a lot.

Development of the Stock Exchange

By this time the Stock Exchange had its own home – the premises it occupies now. In 1812 it had brought out its first rules. The rule book laid down the procedure for getting a quotation which in those days, and, indeed, for many years afterwards, was largely a matter of formality, and differed very greatly from what we have today. If you had the right documents and, to use a clause which persisted well into this century,

> 'if they were substantially in agreement with the articles and the Acts of Parliament'

then you got your quotation. All through those years of the nineteenth century and the beginning of the twentieth, the main function of the Stock Exchange was to provide a market, both domestic and international, in every conceivable type of security.

At that time, if a stock was freely transferable, then it could be dealt in. Right up to the 1914 war, of course, the bulk of the new issues were imperial or international in character, and were connected with the financing of our trade overseas, the development of our colonies and dominions, loans to foreign governments, and so on. Also London was the greatest international financial centre, and the Stock Exchange played its part as an international market, providing facilities for dealing in anything which was freely negotiable and to which a title could be given. A small proportion only of these securities was quoted in the official list.

When the 1914 war broke out, the Stock Exchange was closed, and a condition of its reopening in 1915 was that every bargain must be marked. That meant having an entirely new list, and brought about the introduction of the so-called Supplementary List, which was to go on until quite recent years.

In 1921 the Committee for General Purposes passed a rule that no new stock could be dealt in without permission to deal having been obtained; that was a step forward. It meant that if a man had a new security he wanted to introduce, he must first obtain leave to deal, after which it was automatically quoted in the unofficial list. Whether a security was quoted in the official list or the unofficial list was largely a matter of chance. An old company might have some of its stock quoted in the one and some in the other, but there were the two lists and they continued until the end of the Second World War.

Post-war Boom

The 'twenties were again boom times. There was a boom in 1920 and 1921, largely owing to the inflation of the economy during the war. Also, a lot of people who had never invested before became stock-minded through having acquired war loan and savings certificates and so on, and in the latter part of the 'twenties they were regarded as fair game for company promoters and confidence tricksters of all sorts and kinds. The flotations for which permission to deal was given in 1927–28 were not very closely examined.

In most cases, quotation was granted solely on the basis of the documents being in order; I do not think they were often scrutinized on any other grou[illegible]
The 1928–29 boom was the little man's boom
the day of the mother-and-c[illegible]
companies were floated to[illegible]
a variety of improbab[illegible]
sidiaries to handle[illegible]
number of dazz[illegible]
performance
different. A[illegible]
me was the[illegible]
It was [illegible]
comp[illegible]

its cost to the public to be about £4 million. I never heard it played, so I do not know whether it was cheap or not.

There were, of course, then as always, plenty of issues of the highest quality, but, in general, the public lost a great deal of money on Stock Exchange transactions. There were also a lot of travelling share-pushers going round in expensive cars; they were impressive gentlemen, and I am afraid many people fell for them. A stop has since been put to their activities by the Prevention of Fraud Act.

New Regulations

This boom and the losses it inflicted on the public fairly put the cat among the pigeons. There was a new Companies Act in 1929 and a new set of regulations for the Stock Exchange in 1931; the rules and regulations which were brought in then are roughly those which form the basis of our work today. It was no longer a question of 'are your documents in order?' but 'who are the people running this?'; 'what is the proposition?'; 'who vouches for it?' – and so on. One of the results of this was that we instituted a records department – a sort of rogues' gallery, in which we kept an account of anybody who had anything to do with the promotion or direction of companies. That department is a very important branch of our Share and Loan Department today.

The new attitude to promotions was so effective that when there was another boom in 1936 it was completely unaccompanied by the scandals and misfortunes of previous booms.

The Cohen Committee

That brings us to the 1939 war. It differed notably from its predecessor in the stringent control which was exercised over every branch of commercial and financial life, and in the low rates of interest which were established and maintained over the whole field of borrowing. Towards the end of the war – in 1944 – the Cohen Committee to inquire into company law was set up; it had a representative of the Stock Exchange on it and other representatives appeared before it. Its deliberations in due course led to the Companies Act, 1948. I think it is appropriate just to mention to you what was said about us by the committee in its report. Here is an extract:

> 'Some of the requirements of the London Stock Exchange . . . as to the information to be disclosed in prospectuses and advertisements, go beyond the requirements of the Companies Act. The sanction behind those requirements – and it is a powerful one – is the fact that if the London Stock Exchange are not satisfied, they can refuse permission to deal, or defer their decisions on the matter. On the other hand, as the requirements are not laid down by statute, the London Stock Exchange can waive some or all of them in suitable cases. Their flexibility makes it possible for the rules to be more stringent, and to afford the investor a greater measure of security than could be achieved by a statute, except at the cost of hampering legitimate business. We recognize that, particularly in recent years, the London Stock Exchange have exercised a beneficial influence in that matter of issues.'

People say a lot of hard things about the Stock Exchange, but it is nice to know that that committee had something pleasant to say about us.

At the end of the war we still had two daily lists – the Official and the Supplementary. I have told you of the anomalies to which they gave rise, and in 1947 they were consolidated into the present Official List. It is interesting to note how it has grown over the years. In 1881 the number of stocks admitted to quotation was 1,612; in 1914, 4,930; and in April 1951 it was 9,706.

Stock Exchange Personnel

I think at this stage you ought to meet the Stock Exchange personnel who handle these things. First, there is the Quotations Committee; that consists of some eighteen members of the Council. A small group of them – two chairmen and two vice-chairmen – sit on a panel which considers and discusses the various problems arising from the committee meeting, or from preliminary applications or representations with regard to prospective issues. It deals also with any administrative or other problems which may come before it, and makes recommendations to the full committee. Among special subjects for consideration by the panel might be the desirability, in specific cases, of recommending the exercise of powers, conferred on the Stock Exchange by the Companies Act, of granting relief from certain provisions with regard to prospectuses. Another subject for special consideration might be the question of whether a broker should be allowed to make an issue by the method of 'placing'. I shall refer to this later.

Next comes the Share and Loan Department. They are responsible for the publication of the daily list, the weekly list, the official year book; for notifying the declarations of dividends to the House, and for maintaining communication with the companies and with provincial brokers and exchanges. They are also, and most particularly, responsible for the vetting of all the documents relating to new issues.

Present-day Rules

The part of the Companies Act, 1948, which deals with prospectuses is the Fourth Schedule, and the corresponding part of the Stock Exchange rules and regulations is the thirty-fourth appendix, which stretches to fifty-eight pages. Before I leave the Act perhaps I should mention that the stock exchanges are recognized in another important respect, in that, if a prospectus states that permission to deal will be applied for to a recognized stock exchange, and either permission is not applied for or it is not granted, then the subscriptions must be returned and the allotments cancelled.

The thirty-fourth appendix is divided into parts A and B. Part A deals with companies, and Part B deals with government securities, public boards and the like. Part A is divided into five parts and each part tells you, according to the method of issue to be

adopted, what documents a broker must produce and what he has to do in order to get a quotation. The services of a broker are indispensable for an application for permission to deal and quotation.

Of course, it is clear that no one, with certain exceptions with which I need not trouble you, can apply for a quotation in newly-issued capital exceeding £50,000 without having obtained permission from the Capital Issues Committee to make the issue. Having that permission, the broker goes to the Share and Loan Department and says: 'I want to make such and such an issue'. We then say: 'How do you want to do it?' He can either do it by a prospectus or offer for sale; he can do it by a placing or an introduction; or it can be done by circular to shareholders, by further issues of existing stock; or he can do it in connexion with an issue on a provincial stock exchange. Each of these has its requisite form differing from the others only in a few appropriate particulars. I think I should tell you that in the case of a prospectus or open offer for sale, the prospectus or offer must comply with the requirements of Part I of the Second Schedule of our own appendix whether or not required by law.

Our rules, generally speaking, are based on the law – they must be; they do, in fact, dot the i's and cross the t's and in many cases go well beyond it. A notable example is where we call for ten years' figures for a prospectus or statement and ten years' figures, or the nearest possible, in the case of a new acquisition.

When the broker gets his advice from the Share and Loan Department, he sees that he has to produce various documents such as articles of association and memoranda. As you know, he will also in due course have to present what we call a 'general undertaking' from the borrower that the requirements of the Stock Exchange will be complied with. We get the applicant to sign an undertaking that he will notify dividend dates, drawings and so on; it is a way of seeing that the concern will have regard to the interests of investors. A very important requirement is that the company must notify the Share and Loan Department immediately of any change or major development likely to affect the company so that the establishment of a false market may be avoided. In the ordinary way, if a director resigns from a company, it may be of no great significance, but if the chairman of a great concern resigns, it is a matter of great interest and we expect to be notified immediately. We also want to know when the meeting for declaring the dividend is going to be held, and we want to know the dividend as soon as it has been declared – that is most important for the maintenance of a genuine market and for the protection both of the Stock Exchange and the public. When submitting his documents for final approval, the broker must also tender a cheque for the appropriate quotation fee. The charging of a fee for the privilege of quotation in our lists and dealings in our markets is a recent innovation, but one with the fairness of which we believe borrowers will agree. Some borrowers – governments and public authorities, for example – pay nothing. For the rest the charge is on a graduated scale, rising from five guineas for a £5,000 issue to 500 guineas for one of £1 million or over.

Examination of Documents

We have now reached the stage where the broker has lodged his completed documents, and there are various points we want to check. From the memorandum, for example, we want to see that the company is not authorized to set up as stockbrokers, and in the company's articles we must have provision for free transferability of the shares and reasonable borrowing powers. Then the prospectus (or statement) is sent to the Share and Loan Department to be examined. It is examined by the Records Department first of all then by the Legal Department, both hardened cynics who may decorate its margins with awkward questions. When they have finished, it goes to the secretary of the Share and Loan Department, who probably adds his own.

We may want to know more about the directors and promoters. Their full names, for example. (We hope that S. X. Smith is not the notorious Stanislas Xerxes Smith of the unlamented 'twenties; if he is, the application for leave to deal is doomed to failure.) We want to know about the directors' emoluments and expense allowances. We want to know the basis of gratuitous revaluations – whether they have been given by someone outside and whether they are going to be written into the books of the company, and, if so, whether depreciation is going to be allowed at the enhanced rate. (Where the valuation is not to be written into the books, we insist that assets cover shall be calculated on the book value.) A variety of questions of that kind will be asked and they are all intended for the protection of the public.

Foreign Subsidiaries

If application is made for a prospectus to appear before the end of the financial year, we like to encourage people to wait until they have received their figures. Failing that, we prefer figures for part of the current year to none. There are some cases in which it is impossible or inexpedient to give these figures – for instance, companies with foreign subsidiaries. If you have a subsidiary in the Argentine, for example, it is not always possible for us to insist on six months' figures or figures for a broken period. We do occasionally have to accept estimates. We know auditors will not underwrite these estimates, but we like to feel that the auditors have advised the concern how far they can reasonably go in putting forward these figures.

There are many more questions we will ask; some may seem pertinent, some even impertinent, but they all have their purpose, and are the result of our accumulated experience of many years.

In due course all our points will have been met; the application will have been recommended by the Panel, and will come before the full committee. The

prospectus will have been advertised in the Press a clear forty-eight hours before it is considered by the committee, so that if any question arises it can be brought to our notice. With any luck, all will be well, and your broker's application for leave to deal will be granted.

Placing

Placing is a popular form of financing now and consists of the broker to the issue placing the stock firm with a relatively small number of substantial clients, usually institutional investors. However, the Council of the Stock Exchange is not keen on this as it tends to cut the public out and they can, for the most part, only get in at some later stage when the privileged allottees sell stock. Therefore, we have two rules. First of all, we do not encourage or allow in the ordinary way, a placing to be done for an amount of more than £250,000, and we always insist that the market shall get a fair share, 25 per cent or so, so that they can offer it through their brokers to other members of the public. Otherwise, the application is unlikely to be granted. We do occasionally grant applications for much larger amounts, especially in uncertain or disturbed markets, where the hazards and delays incidental to public offers might prejudice the success of the issue.

If there is to be a placing, another requisite is that the marketing firm of brokers must make a statement as to how they are going to do it, how many shares have been taken firm, how they have been disposed of, who the sponsors are, the prices at which the transactions have been done with the market and with country brokers, what participation the market is getting, who in the market is getting it, and what further arrangements there are for marketing. If all these details are satisfactory then the application is allowed.

Establishing Share Value for Estate Duty

There is another form of marketing known as an introduction. That arises, generally speaking, from the requirements of people with regard to death duties; they have a large holding of shares in a company which has not been quoted before, and they want to establish a value and possibly at some stage to realize part of their holding. In such a case, the Stock Exchange want to satisfy themselves that the shares are well spread. If it is a matter of two or three people holding 100,000 shares it is no good making the application, but if there are, say, 100,000 shares and fifty-three shareholders, and, say, 200,000 preference with ninety-seven shareholders, there will be little risk of a false market being established, and the application will be granted. The establishment of a realistic price for an introduction may not be an easy task for the broker. The operation may not necessarily involve a sale of shares at all, and the broker will have to examine most carefully the level and extent of potential buying before agreeing the proper price with the market. In actual practice, a few sales are usually effected, so that the bargains can be marked and the price substantiated.

Introductions are of the greatest value to the public, for they allow people to put a value on holdings which otherwise would be difficult to value, and they give them prospectively and even at the time, the opportunity of providing themselves with resources for the payment of estate duty.

It should be noted that in the case both of introduction and of placings, a statement for information takes the place of a public prospectus.

There are no special points of interest with regard to the other methods of issue.

In conclusion, I should mention that the Stock Exchange neither dictates terms of issue nor advises upon them. We cannot guarantee the success of an enterprise or of its issues, but I hope you will agree that we try to ensure that the public will have a fair deal, and will be protected, as far as it lies in our power, from bad or fraudulent issues.

SERMONS OUT OF SUMS

ACCOUNTANTS AS ADVISERS

by SIR EDWARD BRIDGES, G.C.B., G.C.V.O., M.C., Permanent Secretary to H.M. Treasury

I WAS asked to give the title of this address before I had thought of what I was going to say. So I fell back on 'alliteration's artful aid', and chose a title which would cover pretty well anything.

I face one difficulty. I am not an accountant myself and my knowledge of your profession is general and indirect. How then can I speak to you without falling into those dim and dreary generalities which make up the worst kind of speech?

I mean to get over that difficulty in this way. There are, I think, some things in common between the sort of work which you do, and which some of us do in the Civil Service. I propose to talk to you of some of the things which I have learnt in my work, in the hope that they may have some relevance to your experience. And I hope that you will not take it greatly amiss that I should suggest some comparison between your work and ours.

What Aristotle Said?

I start with something very simple indeed. It is an Aristotelean quotation: it runs like this:

Part of an address delivered at a joint meeting of the Liverpool Society of Chartered Accountants and the Incorporated Accountants' District Society of Liverpool, on January 22nd, 1952, with Mr Stanley W. Hanscombe, F.S.A.A., President of the District Society, in the chair.

'Nothing can take the place of knowledge of the facts.'

Don't please look this up and try to find where it comes from because I don't think that you would succeed. It is, in fact, just the sort of platitudinous thing that Aristotle did say, and might quite well have said if it had occurred to him. I hope you like it.

A lot of my work – and I am sure a lot of yours too – consists of just that: of making sure that we really do know just what has happened and then going on to find out just how it happened and why it happened.

Here's another quotation:

'Matters of fact are very stubborn things.'

That is a perfectly genuine quotation but I shan't tell you who said it. You will find it in the *Oxford Dictionary of Quotations*, which comes in very useful on this sort of occasion.

But although facts can prove stubborn enough, if you are so silly as to try to play the fool with them, 'stubborn' is not the adjective that I want at the moment. I find that when one is studying something really tricky – what in Whitehall parlance is apt to be described as 'a truly intractable problem' – the facts which give the real clue to what is happening can prove devilish elusive. They hide behind all sorts of obstacles and have to be chased out into the open and hunted down before they can be caught.

Let the Facts Speak

And when you have caught your facts, you have still got to get them to yield up their secrets. It is no good saying 'facts are stubborn things' and bludgeoning them over the head. That method never pays.

Sometimes, indeed, when at a loss to see my way through a difficult piece of work, I have found that while one must study the facts with eagerness to find what they can tell one, one's eagerness must be tempered with patience and understanding.

If you have done your preliminary work properly, the facts you have hunted up will tell you all that you need to learn. But they will not tell you if you allow yourself to become more than half convinced of what the answer is before the facts have spoken – unless you are ready to listen to everything that they have to say: even if it happens to be the direct opposite of what you were expecting to find; even if it blows sky-high some pet theory of your own. That is always happening to me.

The Spark of Understanding

But, in all seriousness, the attitude of mind which I have tried to sketch is, I believe, part of the spark or flame which illumines those who have the truest understanding of my calling and of yours, and if it comes to that, to a greater or less degree, of those employed in many other walks of life.

It is not easy to combine the eagerness of the chase, the determination to get to the bottom, and the imagination necessary to see the picture as a whole, with that patient impartial appraisal of the facts which enables you to keep your judgment in suspense until you have before you all that you need to come to a fair and just conclusion.

So much for the pseudo Aristotle: 'nothing can take the place of knowledge of the facts'. What thereafter?

I am tempted to say that when you have found out the true facts and set them out, in nine cases out of ten almost any fool can then tell you what to do next. But you know, and I know, that it is not quite as simple as that.

Presentation

Enter now the delicate arts of presentation and persuasion. There is much in the special techniques of your profession, of which I am wholly ignorant, which have a bearing on this, and I will therefore only venture on two quite general remarks.

The first is that no method of presentation can be so telling, so difficult to refute or, if need be, so downright to the point of brutality, as that which sets out the facts clearly and coldly, in strict logical sequence, with no admixture of argument (beyond what is essential) or of controversial matter. But you will also know that there is nothing to prevent you from so arranging the facts that they point inexorably to the conclusion that you have yourself formed.

Persuasion

My second remark – and I am sure that you will see its connexion with what I have just said – is this: that by far the easiest way to persuade many people to accept a given conclusion is to give them an opportunity of convincing themselves that they have reached this conclusion by their own unaided efforts, without any outside help. I have indeed met people who are above this kind of cajolery. But there are not so many of them as you might expect.

I hope that I have said enough to justify my hardihood in drawing a comparison between the work of my calling – the Civil Service – and the work of your profession. The comparison is far from exact. But, as I see it, in different ways, those of us who are engaged in both callings are concerned to see that schemes and planning and versions of what has happened in the past, or is expected to happen in the future, do not, so to speak, become airborne and escape from contact with the humdrum but often unpleasant realities encountered on solid earth.

Discipline of Routine

Your calling, like mine, necessarily involves a good deal of routine. Of this, speaking as one whose natural inclination is to be hasty and to deal with the things which interest him, to the exclusion of those which do not, I would only say that in after life one is grateful for the discipline of mind that comes from having learnt to carry out routine duties with accuracy. But that, of course, is how it appears in retrospect.

But above all, it seems to me that your calling calls for a high degree of integrity, not only of character but of intellect, and the ability to see the way clearly through all sorts of complexities to the essentials. I

dare say that the general public thinks of your profession mainly as exercising these qualities to maintain the high standards by which the commercial and industrial life of the country is carried on. That is true enough.

Accountants as Advisers

But my thoughts today have been more on the help and service that you can give as advisers. This in fact – if I wanted to justify the title of my talk – is where I should interpolate a purple passage about 'sermons out of sums'. Since you combine an independent position, with full knowledge of the affairs of your clients, you are in an exceptionally good position to give sound and helpful advice and I know that your profession renders great services in this way to the community as a whole. And I am not forgetting the great help given by distinguished members of your profession in countless Government inquiries.

WEEKLY NOTES

The Institute of Municipal Treasurers and Accountants' Examinations

Of the total of 877 candidates who sat for the November 1951 examinations of the Institute of Municipal Treasurers and Accountants, 249 or 28 per cent, were successful.

In the Final examination, the First Place, 'Collins' Gold Medal, and the Institute Prize were awarded to Mr Bernard Sydney Humphreys (Watford B.); the Second Place and Prize were won by Mr James Pearson (Walsall C.B.); the Third Place and Prize were gained by Mr Alan Robert McCredie (Christchurch B.); and the Fourth Place and Prize by Mr Dennis Pitchford (formerly with Smethwick C.B., now with Walthamstow B.).

In Part A of the Final examination, the 'Philip Howes' Memorial Prize for Local Government Finance was awarded to Mr Gilbert John White (Berkshire C.C.), and the 'John Elliott' Memorial Prize for Advanced Accountancy was gained by Mr Bernard Sydney Humphreys (Watford B.).

The 'President's' Prize for the highest marks, in Part B of the Final examination, and the 'G. A. Johnston (Dundee)' Prize were won by Mr Ernest Pierre Wall (Gloucester C.B.).

In the Intermediate the First Place and Prize were gained by Mr Thomas Edward Carter (Birkenhead C.B.); Second Place and Prize were won by Mr Philip Charles Barnes (Tiverton B.), and Third Place and Prize by Mr Alan Robert Harvey (Lincolnshire (Holland) C.C.). The 'W. W. Cocker' Prize for Accountancy and Income Tax and the 'G. A. Johnston (Dundee)' Prize for Costing were awarded to Mr Thomas Edward Carter (Birkenhead C.B.), and the 'Allison Davies' Prize for Public Finance was awarded to Mr Alan Robert Harvey (Lincolnshire (Holland) C.C.).

A list of successful candidates in the Final, Parts A and B, examinations, appears elsewhere in this issue.

The Butler Cuts

The cuts in imports, Government expenditure and supplies to the home market which were announced on Tuesday by the Chancellor of the Exchequer may perhaps best be regarded as immediate action to improve the external trade position before the new Budget. This, when it comes (and it was announced that it will be presented on March 4th – a month earlier than usual this year) will doubtless contain the Government's considered prescription for dealing with the balance of payments problem and chronic inflation at home. But even with the Budget brought forward it will not be until about May that the Finance Act is passed and the Budget really becomes effective. Clearly something had to be done before then to tackle the grave economic problem which has been developing since last autumn.

Any Chancellor who contemplates severe import cuts must look carefully at petrol and tobacco. These are the two large dollar spenders. Mr Butler has cut tobacco by £22 million but has been steered off petrol by the administrative costs of a rationing scheme. Certain food imports, notably tinned goods which come from countries in Europe which are currently draining gold from the United Kingdom have been axed. The tourist allowance is halved and coal imports from the United States are to be foregone. There are also to be limited withdrawals from strategic stock-piles to cushion the fall in certain imports.

A beginning has also been made on official retrenchment. The civil service is to lose 10,000 personnel in six months and a similar cut will be made in the following six months. The national health service is to be held at £400 million a year and there are to be prescription charges and payments for dental treatment. Education economies are at present limited to administrative cuts and no additional accommodation.

The cuts of one-sixth to the home market, of plant, machinery and vehicles may yet prove to be among the most severe of the reductions imposed, but this can be better assessed when the economic survey for 1952 is available. Smaller supplies of cars, radios and so on for the home market were to be expected, and the decision to limit hire-purchase facilities in certain directions is at least a logical development at a time when inflation has to be curbed.

These are all interim measures in a sense. The total picture will be clearer on Budget Day. This week's economies look like a carefully prepared rehearsal for a further performance in March. The audience's reactions will be watched with anxiety – especially those of the home audience.

The F.B.I. and the Budget

The representations which the Federation of British Industries has made to the Chancellor of the Exchequer on this year's Budget are somewhat similar to those made by the Association of British Chambers of Commerce, which are referred to in a leading article in this issue. The Federation urges that consideration be given to the adaptation of traditional methods of profit computation to meet the difficulties created by inflation. Profits tax it would altogether abolish; failing which it would remove some of the anomalies relating to distributions. Needless to say, the Federation does not welcome an excess profits tax. On the assumption that such a tax is unavoidable the Federation makes some constructive suggestions about its form. Like the Association of British Chambers of Commerce the Federation attacks the anti-avoidance sections of the 1951 Finance Act, and the punitive estate duty provisions of the 1940 Finance Act in relation to private companies.

E.P.T. and the Engineering Industries

A memorandum of the Engineering Industries Association to the Chancellor of the Exchequer condemns the proposed new excess profits tax on the grounds that the encroachment of taxation on the resources of industry are already too high and that the new tax will destroy incentives to economy. It points out the defects of the excess profits tax as levied in World War II and makes suggestions about the details of the new tax, on the assumption that political considerations will necessitate higher taxation of distributed profits and that the new tax will be additional to the existing profits tax.

The rate of excess profits tax should not exceed 30 per cent, making a maximum with profits tax, of 80 per cent on distributed profit. The perhaps optimistic suggestion is made that 1950 and 1951 should be included in the available standard periods, with a progressive addition of 10 per cent per annum to the standard, to encourage growth. The proper return on capital is put at not less than 15 per cent, with a minimum standard of £5,000 for each working proprietor. It will be interesting to compare these proposals with the eventual reality.

Customs and Excise

The report of the Commissioners of Customs and Excise for the year ended March 31st, 1951[1] shows a record high total of revenue at £1,630 million, of which more than £302 million was for purchase tax – another record. The Commissioners attribute the increase in this tax partly to the increased rates introduced in 1950, partly to rises in import prices, and partly to the wave of buying which followed the commencement of the war in Korea. The trend of spending seems to be away from beer and entertainments in favour of durable goods. The consumption of beer fell by 4 per cent and revenue by £14 million. On the other hand more wines and spirits were drunk despite the increased export of whisky, of which the United States took more than 60 per cent of the total. Expenditure on tobacco showed little change, in spite of the rise in the cost of living. The growing popularity of the motor-car, and the abolition of petrol rationing are reflected in the greatly increased consumption of hydrocarbon oils. Football pool duty raised over £16 million. Totalizators at dog tracks had a 17 per cent reduction in turnover, with a corresponding fall in tax.

[1] Cmd. 8449. H.M.S.O. 5*s*, postage 6*d* extra.

More Bank Chairmen's Statements

A spate of bank chairmen's statements has been issued in the last week or ten days. Their tone has been more controversial and forthright than for many years. Sir Walrond Sinclair of Williams Deacon's has commented upon the effect of the recent funding operation on bankers' credit policy. The decline in the liquidity of the banks is bound in his opinion to make the banks less willing to extend credit. This curtailment of one of the banks' most important and remunerative activities he accepts willingly as a step in the right direction in monetary policy – namely as part of a drive against inflation.

Mr Tuke of Barclays has made a maiden pronouncement of wit and shrewdness. His subject has been planning and planners. Briefly, he considers that post-war conditions cried out for a measure of monetary discipline and all the public received was physical controls. He has much more faith in the impersonal rationing powers of the price system than in consciously contrived systems of sharing.

The need to preserve the world's confidence in the pound has been emphasized by Lord Aldenham of the Westminster Bank and by Lord Balfour of Burleigh, chairman of Lloyds. Lord Aldenham has pointed out the close connexion between the balance of payments position and the inflationary spiral at home. He makes a special plea for encouraging more saving. Lord Balfour ends a most informative survey of the country's present economic position with three suggested heads of policy; first, to preserve the spending power of the pound and to halt the rise in the cost of living; second, to effect as painlessly as may be the transfer of labour into essential industries; third, to rectify the fundamental weakness in our balance of payments position.

Having pointed out that a sound banking system is a national sheet-anchor in times of difficulty – not a source of enrichment for the few, the Earl of Selborne, chairman of the National Provincial Bank has gone on to remark upon the changed financial atmosphere of recent weeks. He calls for economy in Government spending and, as a concomitant, lower taxation.

The Marquess of Linlithgow's statement, which was in an advanced state of preparation at the time of his death has been circulated without amendment by the Midland Bank. The late chairman's remarks emphasize the need to rid the economy of rigidity and inflexibility, in pursuit of which a carefully controlled policy of disinflation was important.

FINANCE AND COMMERCE

Mr Butler's statement of the Government's further economic measures has cleared the stock market air to a certain extent but hardly more than to make the Budget a more clearly defined market factor.

Used in Practice

Mr E. H. Grant makes an interesting contribution to the discussion of balance sheet form. He provides a practical example of a form he has used for some years, to which he gives body by the use of figures which have appeared in a balance sheet reproduced in *The Accountant*. Profit and loss accounts, he says, are drawn up on similar lines and his methods 'are appreciated by those clients who consider a balance sheet to be a useful document'.

Mr Grant points out that his method brings current and comparative figures into close perspective, brings narrative close up to the figures, provides a 'main picture' which is easily seen by reading the left-hand narrative, and the details which can be studied by reading the right-hand words.

Details of fixed assets and share capital, he says, are better shown in separate statements. He likes the use of tinted panels as a background for the comparative figures which in typewritten accounts, he points out, are easily and effectively produced by lines drawn with a coloured pencil.

Typewritten accounts, Mr Grant adds, can be done on single sheets, stapled and taped like a company's memorandum and articles of association. In this way, 'they are much easier to handle than the fumbling about which is necessary with the customary folded double sheets'.

Accountants in general practice have much to contribute to the evolution of accounts which has proceeded at such great pace in the past twenty years. We have always understood that the main form of the balance sheet of today was introduced in private practice before it received public notice in the accounts of a leading public company.

We consider Mr Grant's contribution is therefore worth reproducing in this column for readers' general interest.

BALANCE SHEET at August 31st, 1951

	Current year £	Previous year £	
TOTAL NET ASSETS consists of:			
I. **Fixed assets**	42,752	12,207	per statement B, sheet 2
	47,995	23,922	Stock-in-trade as valued by the directors
	62,456	54,391	Debtors and prepaid expenses, less provisions
	9,970	9,970	Quoted investments: shares in insurance companies at cost (market value £10,481)
	15,186	15,000	Deposits with building societies
	—	25,000	Tax reserve certificates
	45,882	59,662	Cash at bankers and in hand
	(181,489)	(187,945)	/Current assets/
	19,346	24,131	Creditors and accrued expenses
	45,310	43,087	Current taxation: income-tax up to 1951–52 and profits tax to date
	10,106	10,588	Proposed ordinary dividend of 27½ per cent, less income-tax
	—	829	Proposed distribution of interest on tax reserve certificates
	(74,762)	(78,635)	/Current liabilities/
II. **Net current assets**	106,727	109,310	= current assets less current liabilities
Total of I and II	149,479	121,517	
	24,500	27,000	Income-tax on the profits of the year
	6,500	—	Taxation equalization account
(*deduct*) Future taxation	31,000	27,000	
TOTAL	£118,479	£94,517	
and are represented by **SHAREHOLDERS' FUNDS** as under:			
I. **Issued capital**	70,000	22,000	per statement A, sheet 2
II. **Capital reserve**	19,882	19,882	Estimated excess profits tax post-war refund
	48,000		General reserve at August 31st, 1950
	48,000		(*Less*) Capitalized per resolution dated April 3rd, 1951
	—		
	20,000	—	Transfer from profit and loss appropriation account
	20,000	48,000	General reserve
	8,597	4,635	Unappropriated surplus, per profit and loss account
III. **Revenue reserves**	28,597	52,635	
TOTAL	£118,479	£94,517	

Over 70

A matter that can cause difficulty is the re-election of directors over the age of 70. It has happened in the case of Brand & Co Ltd – the Brand of 'Brand's Essence' and 'A1 Sauce'. The facts are that Mr J. B. C. Beale retired by rotation at the annual general meeting in February 1949 and was duly re-elected. In July 1949, he reached the age of 70 and, in the words of Lieut.-Col. J. E. Ridley, in his statement as chairman, 'it is regretted that by a misreading of the Act, the necessary steps were not taken to comply with Section 185 of the Companies Act, 1948, for the purpose of reappointing him as a director at the annual general meeting in 1950'.

As Col. Ridley points out, 'the Act provides that a resolution reappointing him has to be given at the next annual general meeting after he has attained the age of 70', and 'the provision of that section therefore terminated his office as a director and for that reason he is not at present technically a director'.

'In order to meet this recently discovered situation,' Col. Ridley continues, 'the directors have under the powers conferred upon them by the articles of association, appointed Mr Beale to be a director to fill a casual vacancy but the appointment does not become effective until it has been duly approved by this meeting.'

At the meeting shareholders re-elected Mr Beale as a director and approved his retaining the £625 paid to him as remuneration 'in respect of the period during which he had technically ceased to be a director' which, according to the resolution, was the period from January 8th, 1950, to December 10th, 1951.

Money Market

Bidding at £99 15*s* the market obtained 55 per cent of its Treasury bill requirements on January 25th. Applications totalled £247,215,000 with the average rate 19*s* 10·74*d* per cent.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Balance Sheets in the Future

SIR, – I read the article 'Balance sheets in the future' by A. MacBeath and the remarks thereon by W. S. Hayes (issues December 1st and 15th, 1951). The basic idea behind the points made is the modification of the old form of balance sheets to meet current trends of thought including revaluations of assets to costs at date of balance sheet. The methods suggested seem in the main to be a mere difference in set-out and phraseology. They do not in effect put forward radical progressive changes.

The points raised lead one to the conclusion that if a balance sheet were to be prepared to give current prices for fixed assets we would be nearing the balance sheet of the future.

The Union Companies Act of 1926, as amended, sets out the order of presentation of a balance sheet, i.e. fixed assets, floating assets, capital reserves and liabilities with certain details in each case. As I see it, it matters little whether we deduct current liabilities from current assets or show them separately on the respective sides of a balance sheet, or whether we state that the fixed assets are at cost, replacement, or cost less amounts written off. Provided we clearly state the basis of valuation we would comply with the Act and show a 'true' position.

The only point to be noted seems to be that of depreciation on fixed assets. It is true that expenditure is at current values – why then should depreciation be charged at another cost or value? Except for this, the object of presenting a balance sheet at the costs ruling at a certain date, which can only be truly made by revaluations at that date, seems unnecessary. It stands to reason that the person desiring to sell his holding in a concern would value such a holding at current values. Therefore, what object would we really serve in having revaluations of fixed assets?

The income and expenditure during a trading year is in any case at the current costs; therefore, except for depreciation, the profit or loss is a 'true profit or loss', which is really the whole object of trading. If depreciation were charged at current costs, the position would satisfy the Act and the profit or loss would be a true current profit or loss, provided stock was valued at 'cost or market, whichever be the lower'.

If the whole object is to make a balance sheet a valuation of current costs for the average person, the expense and trouble involved are unwarranted. If the object is to allow a true yearly comparison of the concern's financial position, then I feel that if a 'unit' called a 'standard £' could be adopted by a country as a whole – and same to bear a ratio to the current value of £1 – the solution of the problem would be simple. All fixed assets would be valued at the standard £ and on balance sheet date a conversion to real values would show the true current position for the purpose of presentation to shareholders and other interested parties. The added advantage of this would be its holding good for falling as well as rising costs.

As a balance sheet is at a 'certain' date, there seems one further point in connexion with showing a 'true position'. Long-term liabilities should be actuarily ascertained as at the date of the balance sheet. The words 'redeemable in ten years' merely indicate a time for redemption; it does not give a true value of the liability at balance sheet date.

Yours faithfully,

J. PERKEL.

Johannesburg, South Africa.

INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Results of Examinations held in November 1951

FINAL EXAMINATION

First Place: 'Collins' Gold Medal and the Institute Prize of £10 10s
* Humphreys, Bernard Sydney, Watford B.
Second Place and Prize of £5 5s
* Pearson, James, Walsall C.B.
Third Place and Prize of £3 3s
* McCredie, Alan Robert, Christchurch B.
Fourth Place and Prize of £2 2s
* Pitchford, Dennis, Smethwick C.B., now Walthamstow B.

PART A

Awarded the 'Philip Howes' Memorial Prize of Books to the value of £10 10s for Local Government Finance:
White, Gilbert John, Berkshire C.C.
Awarded the 'John Elliott' Memorial Prize of £10 10s for Advanced Accountancy:
* Humphreys, Bernard Sydney, Watford B.

(In alphabetical order)

Anderson, J. W., N. of Scotland Hydro-Elect. Bd. (Aberdeen Area).
Andrews, G. T., Tunbridge Wells B.
*Baxendale, L. J., Bolton C.B.
*Beswick, L. S., Rochdale C.B.
*Billings, H., Manchester C.B.
*Blower, R. P., Bedfordshire C.C.
*Brackin, A., Cheadle & Gatley U.D.C.
*Breadmore, L. R., Dagenham B.
*Broadhurst, D., Sheffield C.B.
*Browne, N., Hertfordshire C.C.
*Cantwell, D. L., Chipping Norton B.
Casson, V. S., Swindon B.
Cheater, D. G., Hampshire C.C.
*Clarkson, J. F. W., Bolton C.B.
*Collingbourn, J. E., East Barnet U.D.C.
Cranwell, B. C., Nottingham C.B.
*Darnborough, G. L., Manchester C.B.
*Davey, W. P., Swansea C.B.
*Dawson, N. L., Smethwick C.B.
Dixon, A. W., Stockton-on-Tees B.
*Dollin, F. R., Leicestershire C.C.
*Dore, N. E., Northampton C.B.
*Dry, S., Yorks Elect. Brd. No. 1 (Bradford) Sub-Area.
*Elliott, R. H., Cheshire C.C.
*Fawdon, R. L., Hampshire C.C.
*Fisher, P. D., Oxford C.B.
*Flint, S. J., Chesterton R.D.C.
*Fogarty, N. B., Hayes and Harlington U.D.C.
*Footitt, I. W., Yorks Elect. Brd., No. 6 Sub-Area.
*Fraser, F. J., Lancashire C.C.
*Galletly, D. B., Perthshire C.C.
Gibb, W. Paignton U.D.C.
*Goodwin, R. W., York C.B.
*Hall, R. A., Reading C.B.
Hargreaves, J. E., Bolton C.B.
Harman, D. G. H., Hastings C.B.
*Harris, W. E., Midlands Elect. Brd.
*Haslam, A., Bolton C.B.
Hayling, K. G., Dartford B.
*Hayward, A. R., Bilston B.
*Houghton, F. A., Essex C.C.
*Houghton, L., Derbyshire C.C.
*Hudd, P., Acton B.
*Humphreys, B. S., Watford B.
*Johnson, D., Hyde B.
*Jones, C. L., Swansea C.B.
Jones, G. L., Paignton U.D.C.
*Kay, J. N., Salford C.B.
*Kennedy, J., Bolton C.B.
Lawrence, E. A., Bootle C.B.
Lay, R. S., Hornsey B.
Littlewood, L., Sheffield C.B.
Loftus, F., Bolton C.B.
*McCredie, A. R., Christchurch B.
Matthews, J. O., Birmingham C.B.
Mould, M. C., Amersham R.D.C.
*Mountjoy, A. H., Gloucestershire C.C.
*Mozley, E. A., Nottinghamshire C.C.
Murkin, C. G., Hertfordshire C.C.
*Narramore, D. J., Northamptonshire C.C.
*Owen, A. G., Wolverhampton C.B.
*Packer, L. W., Lydney R.D.C.
*Page, W. H., Croydon and West Kent Sub-Area, SE. Elect. Brd.
Pasco, E. G. Harlow Dev. Corporation.
Pauley, E. F., South Cambridgeshire R.D.C.
Pawson, B. J., Sussex (East) C.C.
*Pearson, J., Walsall C.B.
*Penn, E. W., Torpoint U.D.C.
*Penny, J. A., Kirkcaldy.
*Percival, J. B., Ormskirk U.D.C.
Phillips, K. C., Corporation of London.
*Pitchford, D., Smethwick C.B.
*Pople, R. S., St Marylebone M.B.
*Poulter, R. G., Sutton Dwellings Trust.
*Powell, R. F., Luton B.
*Pringle, J. C., Gosforth U.D.C.
*Reed, C. R. M., Chester C.B.
*Reid, G. H., SE. Scotland Elect. Brd.
*Ruddock, W. C., Suffolk (West) C.C.
Saunders, P. J., Tunbridge Wells B.
*Shail, S., Middlesbrough C.B.
*Shelton, W., Salford C.B.
Smith, P. M. R., Nottingham C.B.
Stiller, A. R., Barnes B.
*Symons, D., Plymouth C.B.
*Tagg, T. A. J., Kingston upon Thames B.
*Tennant, N. W., Preston C.B.
*Thorpe, E. V., Staffordshire C.C.
*Treadway, R. T., Heston and Isleworth B.
*Vine, N. L., Midlands Elect. Brd.
*Walker, A. E., Cheshire C.C.
*Ward, R. L., Brentford and Chiswick B.
Webb, A. W. C., Chatham B.
*Wellington, M. H. F., SW. Elect. Brd. (Devon Sub-Area).
*Wells, F. W., Suffolk (East) C.C.
White, G. J., Berkshire C.C.
*Wiley, G. W., Dagenham B.
*Williams, K. V., Bangor B.
Willmott, J., West Ham C.B.
*Wilson, A. L., Derbyshire C.C.
*Wilson, J. H., Yorks Elect. Brd. (No. 4 Sub-Area).
*Wilson, R., Carlisle C.B.
*Wolverson, K. N., Lincolnshire (Holland) C.C.

PART B

Awarded the 'President's' Prize of £5 5s for the highest marks in Part B.:
Wall, Ernest Pierre, Gloucester C.B.
Awarded the 'G. A. Johnston (Dundee)' Prize of £3 for Statistics:
Wall, Ernest Pierre, Gloucester C.B.

(In alphabetical order)

Adams, E. Greenock.
Barry, D. J., Leicestershire C.C.
Bardwell, J. H., Norfolk C.C.
Bassham, R. E., Norwich B.
Belcher, K. H., Gloucestershire C.C.
†Bevan, I. G., Swansea C.B.
Blacklock, E. H. G., Clacton U.D.C.
†Booth, D. Y., Airdrie.
Bromley, G. L., Leicester C.B.
Chinnery, W. R. R., Crawley Dev. Corp.
Connell, D. A., Ipswich C.B.
†Davies, E. G., Newport C.B.
Devenish, H. E., Bristol C.B.
Dexter, R. A., Blaby R.D.C.
Downham, R. D., Holborn M.B.

* Passed Part I at a previous examination. † Passed Part II at a previous examination.

Emery, D. G., Northamptonshire C.C.
Farr, M. F., Wiltshire C.C.
†Foster, H., Surbiton B.
Freeman, B. J., Kingston upon Thames B.
Gibbs, R. E., Essex C.C.
Greenwood, F., Tottington U.D.C.
†Hodges, F. A., Morecambe and Heysham B.
Hurst, R., Seaford U.D.C.
Hutchins, H. R., Romford H.M.C.
Jenkins, W. B., Leicestershire C.C.
Johnson, P. E., Leicestershire C.C.
Jones, T. O., Ramsgate B.
Lumb, P., Knaresborough U.D.C.
MacKay, W. H., Lanarkshire C.C.
†Mitchell, G. M., Bexhill B.
†Mitchell, H. E., Islington M.B.
Mogridge, L. S., Exeter C.B.
Moran, L., Colne B.
Newman, B. A., Woolwich M.B.
†Oliver, R., Sunderland C.B.
Page, D., Sussex (West) C.C.
Peacock, F. R., Birmingham C.B.
Pettit, W. D., Suffolk (East) C.C.
Pickup, J., Malvern U.D.C.
†Price, W. H. P., Cardiff C.B.
Prince, B. (Miss), Leeds C.B.
Read, C. L., Sussex (East) C.C.
Roberts, N. H., Glasgow.
Shoesmith, G., Southend-on-Sea C.B.
Shuttleworth, J. A., Huddersfield C.B.
Stockford, L. C., Oxford C.B.
Tailby, V. M. A., Richmond (Surrey) B.
Thomason, R., Manchester C.B.
Thompson, D. A., Smethwick C.B.
Trustcott, J. H. P., Staffordshire C.C.
Wall, E. P., Gloucester C.B.
Wallace, J. S., Leatherhead U.D.C.
Williams, H. G., Walsall C.B.

†Passed Part II at a previous examination.

Summary of Results

	Intermediate No.	*Intermediate* per cent	*Final Part A* No.	*Final Part A* per cent	*Final Part B* No.	*Final Part B* per cent	*Total* No.	*Total* per cent
Passed	93	27	103	27	53	35	249	28
Failed	254	73	274	73	100	65	628	72
Total ..	347	100	377	100	153	100	877	100

THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952

AUTHORS AND SUBJECTS OF PAPERS

Numbers Attending

So far, nearly 1,000 accountants in Great Britain and Ireland have made application to attend the Sixth International Congress on Accounting to be held in London, at the Royal Festival Hall, from June 16th to 20th; there will also be more than 500 delegates and visitors from oversea, representing 53 accountancy organizations in 27 countries.

Papers on the subjects selected for discussion at the Congress are being contributed by prominent members of the accountancy profession in Great Britain, as well as from oversea.

Great Britain

Members of the sponsoring bodies of the Congress who are contributing papers are:

Mr C. Percy Barrowcliff, F.S.A.A. (President of the Society of Incorporated Accountants and Auditors). *Subject:* 'Fluctuating price levels in relation to accounts'.

Mr G. B. Burr, F.A.C.C.A. *Subject:* 'The incidence of taxation'.

Mr F. R. M. de Paula, C.B.E., F.C.A. *Subject:* 'The accountant in industry'.

Mr Ian W. Macdonald, M.A., C.A. *Subject:* 'Accountancy requirements for issues of capital'.

Dr A. H. Marshall, B.SC.(ECON.), PH.D., F.I.M.T.A., F.S.A.A. *Subject:* 'The accountant in practice and in public service'.

Mr W. S. Risk, B.COM., C.A., F.C.W.A. *Subject:* 'The accountant in industry'.

Mr G. F. Saunders, F.C.A. *Subject:* 'The accountant in practice and in public service'.

Oversea

A first list of accountants from abroad who are contributing papers, and of the accountancy bodies of which they are members (arranged under the subjects of papers) is as follows:

'Fluctuating price levels in relation to accounts'

Mr A. Goudeket, Netherlands Institute of Accountants.
Professor Willard J. Graham, American Accounting Association.
Mr T. A. Hiley, F.C.A.(AUST.), Institute of Chartered Accountants in Australia.
Mr Edward B. Wilcox, C.P.A., American Institute of Accountants.
Professor B. J. S. Wimble, F.S.A.A., C.A.(S.A.), Transvaal Society of Accountants.

'The incidence of taxation'

Mr R. D. Brown, New Zealand Society of Accountants.
Mr Thomas J. Green, C.P.A., American Institute of Accountants.
Mr Conrad F. Horley, F.A.A., Association of Accountants in Australia.
Mr C. P. Kapadia, Institute of Chartered Accountants in India.
Mr Thomas Kjeldsberg, C.A., Norges Statsautoriserte Revisorers Forening.
Mr Uno Lönnqvist, Foreningen C.G.R. (Finland).

'Accountancy requirements for issues of capital'

Mr W. L. Birnie, B.COM., F.I.A.N.Z., F.C.I.S., Incorporated Institute of Accountants of New Zealand.
Mr F. M. Richard, Compagnie Nationale des Experts Comptables.
Mr J. R. M. Wilson, F.C.A., Canadian Institute of Chartered Accountants.

'The accountant in practice and in public service'

Mr T. Coleman Andrews, C.P.A., American Institute of Accountants.
Mr A. P. C. d'Aca Castel-branco, Sociedade Portuguesa de Contabilidade
Professor W. J. A. Fairbairn, Natal Society of Accountants.
Mr B. W. Raby and Mr A. F. J. Sears (joint paper), Federacion Nacional de Contadores (Bolivia).

'The accountant in industry'

Mr Norman Barfoot, R.I.A., Society of Industrial Accountants of Canada.
Mr Clinton W. Bennett, National Association of Cost Accountants (U.S.A.).
Mr A. A. Fitzgerald, B.COM., F.I.C.A., F.C.A.A., Commonwealth Institute of Accountants and Australasian Institute of Cost Accountants.
Mr Hjerrø Jeppesen, Foreningen af Statsautoriserede Revisorer (Denmark).

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

ANNUAL DINNER

The annual dinner of the Manchester Society of Chartered Accountants was held at the Reform Club, Manchester, on Friday, January 25th, 1952. The President of the Society, Mr Mark Wheatley Jones, B.COM., F.C.A., was in the chair, and with Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, received the 197 members and guests who attended.

Among the guests were Sir Andrew McFadyean, Mr Arthur E. Jalland, K.C., Chairman of Lancashire Quarter Sessions, Mr W. G. F. Ballantyne, President of The Manchester Law Society, The Rt. Rev. W. D. L. Greer, M.A., D.D., Bishop of Manchester, and

Messrs H. Prince Bardsley (*President, Manchester Chamber of Commerce*); S. G. Barker (*Chairman, Manchester and District Bankers' Institute*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); G. D. F. Dillon, B.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); Arthur T. Eaves, M.M., F.C.A., F.S.A.A. (*President, Incorporated Accountants' Society of Manchester and District*); W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*).

Messrs D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); J. Norman Hague, F.C.I.S. (*Chairman, Manchester Branch, Chartered Institute of Secretaries*); K. G. M. Harding, B.A., J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); J. A. Hinks, B.SC., F.R.I.C.S., F.A.I. (*Chairman, Lancashire and Cheshire and Isle of Man Branch, Royal Institution of Chartered Surveyors*); S. Jackson (*Consul, Republic of Finland, President, Manchester Consular Association*); S. Johnson, F.A.I. (*Chairman, Manchester and District Branch, Chartered Auctioneers' and Estate Agents' Institute*); C. Yates Lloyd, F.S.A.A. (*Secretary, Incorporated Accountants' Society of Manchester and District*).

Messrs Alan S MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants in England and Wales*); W. E. Mason, M.C., F.I.M.T.A. (*Manchester City Treasurer*); E. J. Mitchell (*Principal Inspector of Taxes*); Lieut.-Col. W. M. Musgrave-Hoyle, M.C., T.D. (*Chairman, Manchester Stock Exchange*); Messrs G. B. Robins, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); T. Winstanley, F.R.I.C.S., F.A.I. (*President, Manchester Society of Land Agents and Surveyors*); W. C. Young, F.R.I.B.A. (*President, Manchester Society of Architects*).

Proposing the toast of 'The County Palatine of Lancaster', Mr James Blakey, F.C.A., a member of the Council of the Institute, said that during the last two years the Society had sponsored the formation of branches and sub-branches, with the consequent influx of new members from all over the county.

Mr Arthur E. Jalland, K.C., responded.

Metaphysics, Higher Mathematics and Black Magic

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Sir Andrew McFadyean, who said:

'I have always regarded accountancy as a mixture of metaphysics, higher mathematics and black magic. Metaphysics I studied in my youth and have long forgotten; my proficiency in higher mathematics may be judged by the fact that I once succeeded in getting 6 per cent in a maths. paper; and black magic my upbringing taught me to mistrust.' (Laughter.)

Of training for a profession, Sir Andrew continued:

'I understand that to produce a man, at the age of 21, represents about £1,000 of investment; everyone of you here in this room represents something which is nearly £5,000 of investment – is that investment, in the system under which we are living, going to justify itself?'

Fifty Years Ago

Replying to the toast, Mr Boyce said in the course of his speech:

'Quite by chance, I turned up the volume of *The Accountant* for 1902 and I found in that year, fifty years ago (I might say I was a member of the Institute at that time), that the Manchester Society of Chartered Accountants held its twentieth annual meeting, which was followed by the customary dinner.

'It was of particular interest to me to find that in those far-off days it was not the custom for the President of the Institute to attend the annual dinners of the district societies, but the Secretary of the Institute, at that time the Hon. George Colville, was put up to reply to the toast of the Institute. What a vast amount of time and thought the presidents of those days must have been spared in not having to cudgel their brains to find twenty different ways in which to reply to the same toast, and how much less was the strain on their digestive organs and on certain parts of their clothing. (Loud laughter.)

'On the other hand, they missed a great deal, for it is one of the pleasures in the life of the President of today to have the opportunity of meeting his professional colleagues in all parts of the country. (Applause.)

'At that dinner the President of the Society, Mr Fred Scott, spoke with pride of the fact that whereas there were only 1,168 members of the Institute in 1881, the number had increased to 2,700 in 1901. When we realize that in 1951 our total membership is upwards of 16,000 I think we can be justifiably proud of the strides made by the Institute during the past half-century, particularly bearing in mind that we suffered from two world wars during that period.' (Applause.)

The toast of 'Our Guests' was proposed by the chairman, Mr Mark Wheatley Jones, in a charming speech. Of the close association existing between the legal profession and that of chartered accountants, Mr Wheatley Jones said:

'In my very early days I remember reading a draft partnership deed – wherein alongside my name as representing the firm's auditors the following words shook me – "Or some other indifferent chartered accountant".' (Laughter.)

Mr Ballantyne responded wittily on behalf of the guests. Mr E. Gordon Turner, M.C., F.C.A., a member of the Council of the Institute, proposed the toast of 'The Chairman'.

In the course of his reply, Mr Wheatley Jones paid tribute to the energy and work of Mr J. S. Harrower, A.C.A., the Honorary Secretary, and of Miss Isabel Ritchie, LL.B., the Assistant Secretary.

LEEDS AND DISTRICT CHARTERED ACCOUNTANT STUDENTS' ASSOCIATION

FIRST POST-WAR ANNUAL DINNER

About 140 members and guests attended the first post-war annual dinner of The Leeds and District Chartered Accountant Students' Association held in *The Great Northern Hotel*, Leeds, on Friday, January 25th, at which the chair was occupied by Mr W. Bernard Lindley, F.C.A., President of the Association.

Among the guests, who were received by Mr Lindley and Mr H. Garton Ash, O.B.E., M.C., F.C.A., Immediate Past President of The Institute of Chartered Accountants in England and Wales, were Alderman D. G. Cowling, M.B.E., Deputy Lord Mayor of Leeds, Mr E. J. Parris, Barrister-at-Law, Dr Terry Thomas, PH.D., M.A., LL.D., B.SC., J.P., Headmaster of Leeds Grammar School, and

Messrs E. Bales (*Sheffield and District Chartered Accountant Students' Society*); H. Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); Prof. A. J. Brown, M.A., D.PHIL. (*Professor of Economics, University of Leeds*); Messrs C. J. Chibbett (*Liverpool Chartered Accountant Students' Association*); Roland Davy, F.A.I. (*Chairman, Yorkshire Branch, Chartered Auctioneers and Estate Agents' Institute*); J. Edwards (*Bradford and District Chartered Accountant Students' Association*); E. J. Hinchcliffe (*H.M. Inspector of Taxes, 1st Leeds District*); G. N. Hunter, F.C.A. (*Secretary, Leeds, Bradford and District Society of Chartered Accountants*); M. F. Mounsey (*District Manager, Barclays Bank Ltd, Leeds*).

Messrs W. Pennycock (*Incorporated Leeds Law Students' Society*); E. J. Reynolds, M.C. (*Agent, Bank of England, Leeds*); A. Robson (*Northern Chartered Accountant Students' Society*); G. N. Salisbury (*Birmingham Chartered Accountant Students' Association*); A. L. Smith, A.C.A. (*Manchester Chartered Accountants Students' Association*); B. S. Stead, A.S.A.A. (*Hon. Secretary, Incorporated Accountants' District Society of Yorkshire*); County Alderman Bertram Wilson, F.R.I.C.S., L.R.I.B.A., J.P.; Messrs H. C. Wood, F.C.I.S. (*President, Yorkshire Branch, Chartered Institute of Secretaries*); R. F. C. Zamboni (*South Wales and Monmouthshire Chartered Accountant Students' Association*).

Value of Articles

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr E. J. Parris, Barrister-at-Law, who said that since the Institute was founded he believed it had done a tremendous amount of good in raising the standard of the profession.

Mr H. Garton Ash, O.B.E., M.C., F.C.A., responded to the toast and said that everyone who could attain the required standard would be welcomed as a member of the Institute.

'Our system of training has sometimes been criticized as in some measure unrealistic,' he continued. 'There are of necessity two limiting factors to be taken into account – the time available in which to attain the requisite knowledge and the opportunity for covering the wide field of learning that has to be undertaken.

'It is said that our syllabus should be widened and include a number of other subjects. It could, of course, be extended considerably and made to cover all the matters with which we have to deal. But as there is really no end to those matters – even to the extent of being asked to advise on the day-to-day running of a business – the syllabus would be in danger of breaking down under the strain, to say nothing of the articled clerk's reactions!

'The training under articles with a practising member is designed to ensure that the clerk obtains experience of the practical application of the theoretical studies he has to do, and is planned to give, in the time available, a sound ground work.

'As accountants we judge by results and judging by the success achieved by so many members, not only those in practice but in many and varied walks of life, our system of training gives a sound foundation on which to build. I would emphasize that it is, and can only be, a background of knowledge but a background which is capable of being developed in whatever line of accountancy the student himself, when a member, chooses to follow.'

Mr Garton Ash said that he had been reading particulars of the first residential course to be held at Grantly Hall under the auspices of the Leeds District Association in conjunction with its sister association at Bradford. This was an important step forward. Residential courses were particularly helpful to those students in distant areas who were not able to attend the lectures and other facilities available in the larger cities and towns and he strongly advised principals to encourage their articled clerks to attend.

Don't be Copy-cats

Dr Terry Thomas, PH.D., M.A., LL.D., B.SC., J.P., headmaster of Leeds Grammar School, who proposed 'The Leeds and District Chartered Accountant Students' Association' referred to the pamphlet issued by the Institute on the place of student societies in the training of articled clerks and said that he supported many of the ideas put forward in the pamphlet. Dr Thomas also spoke of the value to students of initiative, and said:

'Don't become mere copy-cats swotting up text-books and then putting it down in the way the man said it. Just get the idea into your own head and put it down in your own way.

'Think for yourself, put your own thoughts in your own way, master your own technique; because then you get a pride in the artistry of developing your own subjects. Then you don't become slaves to the thoughts of other men, however great. Repetition never gives the same satisfaction as the expression of your own ideas.' (Applause.)

In reply, Mr Lindley said he was one of those who believed that there were far too many associations, both professional and trade, in this country, but he could assure those present that their association was a very necessary and an active association.

The toast of 'The Trade and City of Leeds' was proposed by Mr R. E. Chadwick, LL.B., a Leeds solicitor. In reply, the Deputy Lord Mayor of Leeds (Alderman D. G. Cowling M.B.E.), recalling that taxation was ten times as great today as in 1899 said:

'I think you accountants who advise we business people have got to be either financial geniuses or financial wizards, or perhaps even more you have got to understand the stars and foretell the future. The other day I heard a financial genius defined as a man who can earn money quicker than his family can spend it.' (Laughter.)

The toast of 'Our Guests' was proposed by Mr A. R. Walton, B.COM., Honorary Secretary, of the Association, and was replied to by Mr Roland Davy, F.A.I., chairman of the Yorkshire branch of the Chartered Auctioneers and Estate Agents' Institute.

INLAND REVENUE
EXTRA-STATUTORY CONCESSIONS
Alterations in 1950

We reproduce below, with permission of the Controller of H.M. Stationery Office, the appendix to the ninety-fourth report of the Commissioners of Inland Revenue (Cmd. 8436 – mentioned elsewhere in this issue) showing additional extra-statutory concessions in operation at December 31st, 1950, and those which have been discontinued.[1] The concessions described below are of general application, but it must be borne in mind that in a particular case there may be special circumstances which will require to be taken into account in considering the application of the concession.

INCOME TAX

1. Double Taxation Relief: Interest or Royalty exempt under Double Taxation Agreement

Where a payment of interest or royalty is made for business purposes in a year for which a trading loss is made, the amount of the payment is charged to tax under Rule 21 (so recovering for the Revenue the tax deducted from the payment), and the amount of the Rule 21 assessment is available for carry forward as a loss against future profits under Section 19, Finance Act, 1928. Where, in similar circumstances, there is a double taxation agreement providing for the exemption from United Kingdom tax of interest or royalty paid to a resident of the country with which the agreement is made, no assessment under Rule 21 is made – S.R. & O. 1946, No. 466, paragraph 3. The amount of interest paid is, however, allowed to be carried forward as though a Rule 21 assessment has been made.

ESTATE DUTY

1. Property Abroad Requisitioned by the Government

Property situate abroad of a person who dies domiciled abroad is in general not liable to estate duty.

Consideration moneys received in respect of balances and securities abroad which have been requisitioned by the Government under the Defence (Finance) Regulations, or investments earmarked as representing such consideration moneys, are regarded as situate abroad where the person dies domiciled abroad and the death on which those moneys or investments pass occurs not later than six months after the expiry of the Regulations.

PROFITS TAX

1. Double Taxation Relief: Interest or Royalty exempt under Double Taxation Agreement

Where interest or royalty is paid by a United Kingdom subsidiary to its parent company (or a United Kingdom parent company to its subsidiary) and the recipient company is resident in a country with which there is a double taxation agreement providing for exemption from United Kingdom tax of interest or royalty payments flowing from the United Kingdom to that country, the interest or royalty is, notwithstanding the provisions of Section 42 (5), Finance Act, 1938, allowed as a deduction in computing the profits of the United Kingdom company for profits tax purposes.

2. Determination of Net Relevant Distributions to Proprietors of Body Corporate controlled by Overseas Body Corporate

Section 39 (2), Finance Act, 1947, provides that where a body corporate not ordinarily resident in the United Kingdom controls, directly or indirectly, not less than half the voting power in a United Kingdom body corporate, distributions by the United Kingdom body to the overseas body shall be left out of account in determining the distributions to proprietors of the United Kingdom body taxable at the higher (distributed) rate. In a case where the overseas body exercises its control of the United Kingdom body indirectly through the medium of a 100 per cent United Kingdom subsidiary, distributions by the first-mentioned United Kingdom company to that subsidiary are ignored in the same way as if they had been made to the overseas body.

EXTRA-STATUTORY CONCESSIONS WHICH HAVE CEASED TO OPERATE during the year ended December 31st, 1950

INCOME TAX

No. on List in Board's 93rd Report.

24. DOMINION INCOME TAX RELIEF UNDER SECTION 27, FINANCE ACT, 1920: EFFECT OF EXCESS PROFITS TAX.
25. DOMINION INCOME TAX RELIEF UNDER SECTION 27, FINANCE ACT, 1920: SUR-TAX PAYER.

Section 36, Finance Act, 1950, providing for unilateral relief, has taken the place of Dominion income-tax relief.

[1] The main list of extra-statutory concessions, shown as an appendix to the ninety-third report of the Inland Revenue, was reproduced in our issue of January 20th, 1951.– Editor.

NOTES AND NOTICES

Personal

MESSRS GILROY, RUCK & JENKINS, Chartered Accountants, of 7 New Court, Lincoln's Inn, London, WC2, and 28 Lowfield Street, Dartford, Kent, announce that Mr A. H. HART, A.C.A., who has been associated with the firm for some years, was admitted into partnership on January 1st, 1952.

MESSRS ARTHUR YOUNG, BROADS PATERSON & Co, of 1 Copthall Close, London, EC2, announce that as from January 1st, 1952, their practice will also be carried on under the style of ARTHUR YOUNG & Co. The address of their Paris office has been changed to 130 Rue du Faubourg, St Honoré, Paris *8eme*.

MESSRS SHERMAN, APPLE & Co, Chartered Accountants, announce that they have moved their offices from 81 High Holborn, WC1, to 24 Bryanston Street, W1. Telephone: Welbeck 3006.

MR H. RUSHWORTH SMITH, F.C.A., A.C.C.S., hitherto practising as H. RUSHWORTH SMITH & Co, Chartered Accountants, of Liverpool, and Mr GEORGE H. BOWLER, F.C.A., A.C.W.A., hitherto practising as T. THEODORE ROGERS, BOWLER & Co, Chartered Accountants, of Liverpool, announce that they have entered into partnership and that as from January 1st, 1952, their practices have been amalgamated under the new style of ROGERS BOWLER RUSHWORTH SMITH & Co, Chartered Accountants, of 30 North John Street, Liverpool, 2. Telephone: Central 5700 and 8967.

County Commission

Mr William Day, T.D., F.C.A., senior partner in the firm of Messrs Day, Smith & Hunter, Chartered Accountants, of Maidstone, has been appointed a Deputy Lieutenant for the County of Kent. Mr Day is a Lieutenant-Colonel in the Territorial Army.

Royal Commission on the Taxation of Profits and Income

The minutes of evidence for the following days are now available at H.M. Stationery Office:

- June 21st, 1951, price 2*s* 6*d*; June 22nd, 1951, price 3*s*; July 18th, 1951, price 3*s*; November 1st, 1951, price 3*s*; November 2nd, 1951, price 3*s*. Postage extra.

The Institute of Actuaries Students' Society

A general meeting of the Society is to be held in the Council Chamber of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, on Friday, February 8th, when Mr H. E. Bishop will speak on 'A mathematician's approach to econometrics'. Tea will be available in the members' lounge from 5.10 p.m.

Revenue Paper: Hilary Sittings, 1952

COURT OF APPEAL

The following cases are down for hearing in the Court of Appeal:

Star Cinemas (London) Ltd *v.* Majestic (Derby) Ltd *v.* C.I.R.
Union Corporation Ltd *v.* C.I.R.
Johannesburg Consolidated Investment Co Ltd *v.* C.I.R.
Trinidad Leaseholds Ltd *v.* C.I.R.
Higgs *v.* Olivier.
Bentleys, Stokes & Lowless *v.* Beeson.
Dale *v.* C.I.R.

CHANCERY DIVISION

The following cases are down for hearing in the Chancery Division:

H. W. McIntosh (Inspector of Taxes) *v.* The Manchester Corporation.
Bourne & Hollingsworth Ltd *v.* C.I.R.
Lieut.-Col. Patrick D. Stewart *v.* C.I.R.
John Horowitz *v.* J. Farrand (Inspector of Taxes).
Erddig Motors Ltd *v.* S. Pritchard (Inspector of Taxes).
Erddig Motors Ltd *v.* C.I.R.
R. E. Phillips (Inspector of Taxes) *v.* Whieldon Sanitary Potteries Ltd.
E. A. F. Fenwick *v.* C.I.R.
H. Harvey *v.* L. W. Caulcott (Inspector of Taxes).
John Frederick Wood *v.* The Public Trustee, Executor of Sir Alec Black, Bart., *dec'd.*
C.I.R. *v.* The Public Trustee, Executor of Sir Alec Black, Bart., *dec'd.*
Charles Gordon Strick (Inspector of Taxes) *v.* Edward H. Longsdon.
G. H. Newsom *v.* J. V. Robertson (Inspector of Taxes).
C. Townsend (Inspector of Taxes) *v.* Electrical Yarns Ltd.
B. Moschi *v.* T. Kelly (Inspector of Taxes).
B. Moschi *v.* C.I.R.
C.I.R. *v.* Chappie Ltd.
C. P. Kempster *v.* S. J. McKenzie (Inspector of Taxes).
A. & J. Mucklow Ltd (in liquidation) *v.* C.I.R.
Philip Hutton *v.* C.I.R.
E. M. Compton Mackenzie *v.* T. J. B. Arnold (Inspector of Taxes).

The Accountant

ESTABLISHED 1874

FEBRUARY 9TH, 1952 VOL. CXXVI NO. 4025

King George VI

While the whole Commonwealth mourns the death of a beloved and honoured King, whose life ended so peacefully but so suddenly on Wednesday last, the hearts of all go out in deep affection and sympathy to every member of the Royal Family. More especially they feel for the Queen Mother who throughout the reign of King George VI was his constant and most gracious helpmate, and is now widowed, and for the young queen, Elizabeth, called in the midst of her own grief to take up the burdens and responsibilities of her high office.

King George VI was not born to be King, but was brought to the throne by the abdication of his brother, King Edward VIII. He accepted the Crown with that consciousness of duty and steadfast care for his people which have never wavered. During the troublous days of the war he shared their dangers and their sorrows; and at all times he and his family have shared with countless thousands the happiness of their own home life, and never was there a happier home.

Queen Elizabeth and her Consort have already captured the hearts and imagination of all, and the goodwill which follows them wherever they go is no formal thing but a real loyalty and devotion.

These are troublous and uneasy times and 'God Save the Queen' is a prayer in which all Her Majesty's subjects will join.

At a meeting of the Council of The Institute of Chartered Accountants in England and Wales, held on Wednesday, February 6th, 1952, it was unanimously resolved

> That the President, Vice-President and Council of The Institute of Chartered Accountants in England and Wales, on behalf of themselves and the Fellows and Associates of the Institute desire humbly and respectfully to convey to Her Majesty the Queen, Her Majesty's mother Queen Elizabeth, Her Majesty Queen Mary and the other members of the Royal Family, their profound grief and sympathy in the irreparable loss which they and the nation have sustained by the death of His Most Gracious Majesty King George VI. They also desire to assure Her Majesty of their loyal devotion to her person and throne and pray that Her Majesty may be long spared to rule in peace and happiness over her loyal and devoted people.

It was also resolved

> That a copy of the above resolution, under seal, be forwarded to the Secretary of State for Home Affairs.

TAXATION IN AMERICA

ACCOUNTANTS AND TODAY'S PROBLEMS

THE sixty-fourth annual meeting of the American Institute of Accountants was held in Atlantic City on October 6th to 10th, 1951, when papers were presented under each of the following heads: (1) 'Auditor's responsibility'; (2) 'Public relations and legal control of the accountancy profession'; (3) 'Financial information needed in today's mobilization economy'; and (4) 'Tax problems being met in today's mobilization economy'. The last two heads emphasize the profound effect which the measures arising out of the international tension are having on civil life in the United States.

The fourth head consists of an address[1] by MR JOHN B. DUNLAP, the Commissioner of Internal Revenue, papers by a panel of six experts on Federal income-tax, and three papers on the excess profits tax.

The Official Point of View

To a British taxpayer, MR DUNLAP's address would seem highly stimulating and refreshing. He makes a candid admission of official shortcomings, promises to do his best to put them right, and asks in an engaging way for the co-operation of accountants. Referring to the difficulties of settling some individual cases, MR DUNLAP says:

> 'We have discovered that oftentimes some of the failures of Internal Revenue agents to complete a case or get an agreement either through additional proposed assessment or a refund, arise from pure personality reasons or a possible misunderstanding of the statutes and regulations involved on the part of the agent – sometimes on the part of the taxpayer . . .
>
> 'Of course there are two sides to the question. I have known accountants, and so have you, who were so cantankerous that nobody could do business with them. . . . I know, thank heaven, only one or two. I also know Internal Revenue agents who have been so cast in iron that they cannot see but one side of the picture, and who have the habit of saying: "I won't allow this" and "I won't allow that". I am trying to eliminate that frame of mind in our field people, but bear in mind that all of us are human beings. . . . We do not want in the Internal Revenue Service any arbitrary, unsettled people.'

[1] American Association of Accountants, New York. $1.

The Commissioner had something to say which will arouse a sympathetic echo here. It is this:

> 'Our tax structure has gotten to the point where we must, in my opinion, do something to simplify it other than explaining them in the directives that come out. The laws themselves must be simplified.'

Referring to the keeping of records by business men MR DUNLAP mentioned the fact that the statutory requirements were to become more rigorous. The failure to keep the accounts required would be a felony, not a misdemeanour.

The Professional Papers

A refinement which has not yet arisen here, and which is discussed in a paper by MR W. WALLER GROGAN, is the question of disallowing business expenses on ethical grounds as being contrary to public policy. Thus secret commissions, pithily described as 'kick backs', paid by an optician to a physician who recommended him to patients, have been disallowed, and there have been attempts to disallow payments for price-controlled goods and services which were above the permitted maxima. It may be thought that in this country the 'wholly and exclusively' rule causes difficulty enough, without further refinements.

Those who grapple with the herd basis of valuation of livestock may take comfort from a paper by MR WALTER M. BURY, from which it would seem that the complexities of dealing with livestock for Federal income-tax purposes are every bit as difficult as the corresponding problems here.

In the United States, since 1934, profit from a purchase and sale of a company's shares by officers and certain shareholders of the company have to be handed over to it. This requirement arises out of legislation dealing with the making of easy profits on the Stock Exchange by persons having inside knowledge. The treatment of these payments for tax purposes is still a matter of some vagueness. It is discussed in a paper by MR CHARLES N. WHITEHEAD.

It is interesting to note that one member of the Excess Profits Tax Panel is MR T. T. SHAW, who has been a certified public accountant in New York since 1933 but was born and educated in England and is an Associate of the Society of Incorporated Accountants and Auditors.

PRACTICAL CONDUCT OF AN APPEAL BEFORE THE COMMISSIONERS

by SIDNEY I. SIMON, Barrister-at-Law

IT is probably no exaggeration to say that as many tax appeals before the Commissioners are lost through inadequate presentation as through weaknesses in the appellant's case. The actual presentation of cases before the Commissioners – the argument, examination and cross-examination – by the nature of things, can only be one small part of an accountant's duty and a relatively infrequent one at that. Little, if any, of an accountant's training has been directed to instructing him in the arts of advocacy; apart from such practical knowledge as he may have acquired from experience or from spare-time reading he is often quite ignorant of the rules of evidence. Procedure in its strict sense is a closed book.

Admittedly in the usual small appeal to the General Commissioners all these deficiencies do not matter. Indeed, it would be a pity if the informality which often prevails at the average small appeal before the General Commissioners were to vanish. Danger might arise, however, should the absence of formality and the departure from the strict rules of evidence weaken the appellant's case.

Was not Evidence

Let us hear Croom-Johnson, J., in *Cooksey and Bibby v. Rednall* ([1949] 30 T.C. 514; 28 A.T.C. 41). The General Commissioners had confirmed on appeal an assessment on property-dealing under Case I of Schedule D. The appellants contended that the profit was a capital profit. The judge proceeded in no uncertain terms to reverse the decision of the Commissioners:

> 'The rules of evidence in this sort of case, as I have said, are just the same as the rules of evidence in any other case. All I can say is that the idea that you are entitled to put anything you like, or any document you like, wherever you get it from, which is not the witness's document, in the witness's hands and cross-examine him about it is an idea which had better be given up as quickly as possible. How far, if at all, that influenced the Commissioners I do not know, but it clearly was not evidence. It was at most, taking it at its face value, an interview conducted by this gentleman who is a solicitor acting on behalf of a client, and is no evidence against him in his personal capacity. I do not know how much public time was taken in cross-examining this gentleman upon that document – I think it most unfortunate that all that time should have been taken up in that way. All I can say about it is that the whole of it is not evidence, not a rag of evidence, to support the case which the Crown have sought to make here, and which the Commissioners have apparently accepted.'

Commissioners' Decision

The importance of securing a favourable decision from the Commissioners cannot be over-stressed. Nothing is more dangerous than to adopt the attitude that an unfavourable decision by the Commissioners may be reversed by the High Court. Time and again the High Court, for its part, has contented itself with saying that provided there was *some* evidence on which the Commissioners could have arrived at that decision, the Court could not intervene, though the Court itself on the same facts might possibly have arrived at an opposite decision.

Procedure

Formal procedure is as follows. It must be emphasized that it will normally only be necessary to follow it in an appeal of sufficient size, or when the appellant's representative considers it to be to his client's advantage. The Special Commissioners normally adopt this procedure:

(i) The appellant's representative opens his case.

(ii) The appellant's representative examines his client who gives his evidence. This is called 'examination-in-chief'.

(iii) The Inspector (or the representative for the Revenue) cross-examines the appellant.

(iv) The appellant's representative re-examines his client on points arising from the Inspector's cross-examination.

(v) Witnesses for the appellant are similarly examined, cross-examined and re-examined.

(vi) The Inspector states the case for the Revenue.

(vii) Revenue witnesses (if any) are examined by the Inspector, cross-examined by the appellant's representative and re-examined by the Inspector.

(viii) The Inspector sums up the case for the Revenue.

(ix) The appellant's representative makes his final reply.

Appellant's Case

The appellant thus has both the first word and the last word; this is a considerable advantage. It means that the Commissioners receive their first and their final impressions of the case from the appellant. While the case should of course be presented objectively and fairly, experience will show the value of the right to begin and to end. The Revenue has the upper hand as regards the burden of proof. The onus is squarely on the appellant to show that the assessment is excessive. It will be sufficient for the Revenue to show that the appellant has not discharged that burden, when the assessment is confirmed. But the initiative is with the appellant, and if his representative is both wise and skilled, he will keep it.

The Revenue is entitled to know what it is that the appellant claims: whether it be that the assessment is excessive and ought to be reduced to so-and-so, or whether a surplus on which he has been assessed is not a 'profit or gain' but a capital appreciation, or whether it be a personal allowance, or a loss in trade or anything else.

What the Revenue is *not* entitled to know beforehand is *how* the appellant intends to prove his case. There have, from time to time, been appeals in which, before the hearing, the Inspector has written to the appellant requesting the names of the witnesses he intended calling and even requesting their addresses and trades or professions also. There is absolutely no legal authority for such a request and it should be met with a categoric refusal of the information. This is not to suggest in any way that Inspectors have been guilty of sharp practice. The tax inspectorate is a hard-working, conscientious body which may be relied on to tackle its tasks fairly and honestly. However, while each Inspector has been educated in at least the elements of evidence and procedure, he is certainly no *expert* in either of these subjects. If an excess of zeal combined with deficiency of the appropriate knowledge have led him to stray from strict procedural paths, that is no reason why the prospects of the appellant before the Commissioners should be made to suffer.

Evidence

Nobody expects an accountant to be an expert on the law of evidence. However, knowledge at the right time of some of the main principles of this branch of the law may often make all the difference between winning or losing an appeal.

One of the most important of these principles is the general rule that 'hearsay' evidence is not admissible. 'Hearsay' evidence means the oral or written statement of a person who is not called as a witness, conveyed to the Court or appeal tribunal, either by a witness or through the instrumentality of a document and which is tendered as proof as the truth of the facts stated. A moment's reflection will show the reasons. If the party who originally made the statement is not present, he cannot be cross-examined so that the truth of his statement cannot be tested. Further, the appeal tribunal cannot see the demeanour of the original party. The way in which evidence is given, and questions are answered under cross-examination, helps the Commissioners to decide whether the witness is speaking the truth and so whether they ought to accept or reject the evidence. Finally, a tale retold is usually a tale altered. So that if for example, an Inspector (acting quite bona fide but misguidedly) were to attempt to read from his predecessor's notes of interview, there is an opportunity for objection with all the authority of Mr Justice Croom-Johnson in *Cooksey and Bibby's* case behind it.

Case Law

Important points in the conduct of an appeal are:

(i) While the Commissioners are considering their decision, if the appellant is asked to withdraw, the Inspector must withdraw also (*Rex v. Brixton Income Tax Commissioners, ex parte Lion Brewery Ltd* ([1913] 6 T.C. 195)).

(ii) The Commissioners are not bound to put an appellant on oath (*Queen v. Special Commissioners (in re Fletcher)* ([1894] 3 T.C. 289)).

(iii) The Commissioners must have *some* evidence to arrive at their decision (*Anderson v. C.I.R.* ([1933] 18 T.C. 320; 12 A.T.C. 619)).

(iv) Evidence must be lawful (*Cooksey and Bibby v. Rednall* ([1949] 30 T.C. 514; 28 A.T.C. 41)).

(v) Dissatisfaction must be expressed *immediately* (*Burston v. C.I.R.* ([1945] 28 T.C. 123; 24 A.T.C. 349)).

(vi) There is no legal right of withdrawing an appeal (*Rex v. Special Commissioners (ex parte Elmhirst)* ([1935] 20 T.C. 381; 14 A.T.C. 509)).

THE COMPANY PROSPECTUS - II

THE LAWYER'S APPROACH

by SIR SAM H. BROWN

The first lecture in this series – from the viewpoint of the Stock Exchange – by Mr F. R. Althaus, Vice-Chairman of the Quotations Committee, London Stock Exchange, was reproduced in our last issue. We hope to include the two further lectures in the series, from the standpoint of the accountant and of the investor, in subsequent issues. The series forms part of the winter lecture programme of the London and District Society of Chartered Accountants. The address reproduced below was delivered at a meeting on December 19th, 1951, with Mr G. D. F. Dillon, F.C.A., President of the Society, in the chair.

I COULD deal with this subject very shortly by saying that the lawyer's approach to a prospectus is a combination of delight and caution – delight because the fee which a lawyer receives for acting in connexion with a prospectus is normally as high as, if not higher than, that which he receives for any other type of work performed by him; caution because of the considerable responsibility which a lawyer has to bear in such matters, both *vis-à-vis* his own client and also, from a moral point of view at least, *vis-à-vis* the public. Whilst on the subject of fees, may I say, at the risk of offending my clients, that I have many times been surprised at the moderation of the fees which members of your profession charge for work in connexion with prospectuses.

However, I imagine that it is not quite this approach about which you wish to hear, but that you want me to outline the general nature of the problems with which the lawyer is faced in dealing with a prospectus, and the nature of the work which he undertakes. At the risk of being considered presumptuous, I have assumed for the purposes of this address that where in the title the expression 'the lawyer's approach' is used, what is intended is that of a solicitor rather than that of a barrister, for it is only on the solicitor's approach that I am in any sense qualified to speak. I may perhaps add that I have no reason to suppose that the barrister's approach is materially different.

The First Approach

The first point upon which a solicitor tries to satisfy himself is as to the status of the company whose prospectus is involved. In the great majority of cases this presents no problem, since the business is brought to the solicitor either by well-established clients or through firms of accountants, issuing houses, or other people who are well known to him, and on whose judgment as to the soundness of the business concerned he is normally quite content to rely.

The next problem – and this may come as a surprise to those of you who are not familiar with prospectus work – is to decide whether or not, as a matter of law, the transaction involves a prospectus. I imagine that most of you, when talking of a prospectus, think of one of those documents which you see in the papers, many of the more important parts of which, from the lawyer's and, to a lesser extent, the accountant's points of view, are printed in such small type as to be almost illegible. In fact, however, it is possible for such a document not to be a prospectus in the legal sense of the term at all. It is equally possible for many a document which is not advertised in the papers to be legally a prospectus, such, for example, as 'letters of rights', 'provisional allotment letters', and letters written by issuing houses or stockbrokers to their own clients inviting them to purchase shares. What, therefore, is a prospectus?

What is a Prospectus?

Section 455 of the Companies Act, 1948, defines a prospectus as: 'Any prospectus'. Pausing there, may I be permitted to say: 'How very helpful!' Suppose you or I were asked by a client to define what we mean when we talk about, say, a capital reserve, and we were to reply, 'Any capital reserve'. I do not know how long-suffering your clients may be, but there are certainly many of mine who would not return to catch any further pearls of such wisdom as might fall from my lips. Fortunately for them, but not for us, Parliamentary draftsmen cannot so easily cast off their clients. However, perhaps I am being a little unfair, because the definition does contain some more words. It reads as follows:

> 'Prospectus means any prospectus, notice, circular, advertisement, or other invitation, offering to the public for subscription or purchase any shares or debentures of a company.'

I would ask you to note particularly the words in this definition: 'offering to the public for subscription or purchase'. There are at least three observations about these particular words which I want to make.

The first is that they are singularly inapt to describe a prospectus which, when issued, ordinarily offers nothing to any one but merely invites offers to subscribe or purchase, which the company or person issuing the prospectus may or may not accept.

Must it be a Written Document

Secondly, while there is nothing in the definition itself which requires the offer to be in writing, when the definition is read in conjunction with the other relevant sections of the Act, it is clear that it is implicit that the offer must be a written offer. Therefore, if you find yourselves stuck with shares of which you would prefer to be rid and wish to peddle them out, you can mount your bicycles and, so far as the Companies Act is concerned, pedal round the City to your heart's content, provided you do not cover yourselves or your vehicles with placards offering to sell or inviting offers to purchase the shares. But, just in case you may take me too literally, I should warn you that, before you adopt that course you would be well advised to study the provisions of the Prevention of Frauds (Investments) Act, 1939, and first to secure a principal's licence under that Act. Otherwise, you may find yourselves compulsory, albeit temporary, guests of His Majesty.

However, to return to a more mundane level. The point I have made, that a prospectus must be a document, has a practical bearing in everyday business life and that is in relation to what in Stock Exchange parlance are known as 'introductions'. The sort of thing which happens when shares are introduced to the Stock Exchange, is that the owners of the shares instruct a firm of brokers, subject, of course, to permission to deal in and quotation for such shares on the Stock Exchange being granted, to sell on the Stock Exchange up to a specified number of shares at not below some specified price. An advertisement complying with the regulations of the Stock Exchange is published in the press and on a quotation being granted the brokers merely sell the shares to jobbers in the ordinary way. The advertisement itself contains no offer to any one to buy any shares nor any invitation to any one to apply to the vendor shareholders to purchase shares, and no document containing any such offer or invitation is issued by the brokers. Thus, in such cases there is no prospectus.

'Offering to the Public'

Thirdly, you will note that the words are 'offering to the public', and difficult questions arise as to whether any particular document, which may be involved in any transaction, contains an offer to the public. Until the present Companies Act came into force, there was no statutory definition of the expression 'the public' used in this connexion. However, Section 55 of that Act attempts to define this by saying in subsection (1) that, subject to certain exceptions, any reference in that Act to:

> 'Offering shares or debentures to the public shall be construed as including a reference to offering them to any section of the public, whether selected as members or debenture-holders of the company concerned or as clients of the person issuing the prospectus or in any other manner.'

You may perhaps agree with me in thinking that, as a definition of the expression 'the public', the words which I have just read are almost as clear as mud. They do, however, remove certain doubts which were previously entertained as to whether an offer, limited only to a company's existing shareholders or debenture-holders, or only to regular clients of an issuing house or a firm of brokers, was an offer to the public, and therefore, whether the documents containing such an offer came within the definition of the expression 'prospectus' as used in the Act. We know now that it does.

But the foregoing is not the whole definition, because subsection (2) of Section 55 goes on to provide that subsection (1):

> 'Shall not be taken as requiring any offer or invitation to be treated as made to the public if it can properly be regarded, in all the circumstances, as not being calculated to result, directly or indirectly, in the shares or debentures becoming available for subscription or purchase by persons other than those receiving the offer or invitation, or otherwise as being a domestic concern of the persons making and receiving it.'

As yet, the meaning of Section 55 has not fallen to be construed by the Courts. It is, however, generally accepted by lawyers dealing frequently with prospectus matters that in so-called 'private placings' if either a Stock Exchange quotation is to be applied for or even if such a quotation is not being applied for, but renounceable allotment letters, or letters of acceptance are to be issued, the offer must be treated as an offer to the public, since it can properly be regarded in all the circumstances as being calculated to result directly or indirectly in the shares or debentures becoming available for subscription or purchase by persons other than those receiving it, and this is so, even if the number of persons to whom it is made is quite limited.

The Requirements of the Companies Act

Assuming now that the solicitor is satisfied that the transaction about which he is being consulted involves the issue of a document which falls within the definition of a prospectus, this is not the end of his problem. Why not? Because it still remains to decide with which, if any, requirements of the Act it must comply. These requirements, if foreign companies are ignored, are contained in four separate sections and one schedule. They are:

First, *Section 37*, which requires a prospectus issued by or on behalf of a company or in relation to an intended company to be dated.

Secondly, *Section 38*, which, subject to certain exceptions, requires every prospectus issued by or on behalf of a company or by or on behalf of any person who is or has been engaged or interested in the formation of the company, to state the matters specified in Part I of the Fourth Schedule to the Act, and set out the reports specified in Part II. I would ask you to note that it is only when Section 38 applies that the provisions of the Fourth Schedule

have to be complied with and it is that schedule which calls for the auditor's report and the mass of detailed information which appears in small print in, and largely accounts for the inordinate length of, many prospectuses.

Thirdly, *Section 40*. This provides that a prospectus which includes a statement purporting to be made by an expert shall not be issued unless: (*a*) the expert has given, and has not before delivery of a copy of the prospectus for registration withdrawn, his written consent to the issue of it, with his statement included in the form and context in which it is included; and (*b*) a statement that he has so given and not withdrawn his consent appears in the prospectus.

Accountants are experts within the meaning of the section, and you may be interested to know that you are ranked for this purpose along with engineers and valuers and, I should like to be able to add, married women and lunatics who, until comparatively recent times were regarded by the law as being for many purposes on a par. However, that would not be quite accurate. The words of the section are:

> 'Engineer, valuer, accountant and any other person whose profession gives authority to a statement made by him.'

Fourthly, *Section 41*. The relevant provisions of this section can be summarized as follows: (*a*) A copy of every prospectus issued by or on behalf of a company or in relation to an intended company must, on or before the date of its publication, be delivered to the Registrar of Companies for registration, duly signed by every person named therein as a director or proposed director or by his agent authorized in writing. (*b*) The copy so delivered must either have endorsed on, or attached to it: (i) the written consent of the experts required by Section 40; (ii) a copy of every material contract mentioned in it; (iii) a written statement signed by the auditors and accountants, setting out any adjustments made by them in arriving at the figures shown in their reports contained in the prospectus, and giving reasons for making such adjustments. (*c*) Every such prospectus must on its face state that a copy has been so delivered and specify or refer to statements included in it which specify the documents so required to be endorsed on or attached to the copy delivered for registration.

Compliance with the Requirements

Those, then, are the requirements. Now, assuming that the document in question is a prospectus, when can all or any of these requirements be dispensed with? The first thing to note is that with the possible exception of Section 40 – compliance with the provisions of which is relatively a simple matter – they apply only to a prospectus issued by or on behalf of a company or in relation to an intended company or, as regards Section 38, by or on behalf of any person who is or has been engaged or interested in the formation of the company. It is a curious thing that these last few words appear only in Section 38. Why this is so I have been unable to discover; possibly it is due to faulty draftsmanship.

'Offers for Sale'

As I said a few moments ago, with the possible exception of Section 40, the foregoing sections apply only to a prospectus issued by or on behalf of a company or in relation to an intended company, or by or on behalf of persons who are or were engaged or interested in its formation. Thus, if these sections stood alone, the ordinary document known colloquially as an 'offer for sale prospectus' would not have to comply with any of the foregoing sections other than Section 40. This was in fact the position until the Companies Act, 1929, came into force. Section 38 of that Act, which has now been replaced by Section 45 of the 1948 Act, however, went some way towards meeting the situation. Section 45 provides that where a company allots or agrees to allot any of its shares or debentures with a view to all or any of them being offered for sale to the public, any document by which the offer for sale to the public is made shall, for all purposes, be deemed to be a prospectus issued by the company.

In my experience, most offers for sale are of shares or securities which were allotted or agreed to be allotted with a view to their being offered for sale to the public, so that the document used for that purpose does get caught by the statutory requirements to which I have referred.

Sales by Shareholders

It is still possible, however, for such a document not to be so caught. For example, it can happen – and indeed has happened – that the shareholders of some private company established many years ago desire to realize for death duty or other reasons a substantial block of shares, and arrange with an issuing house to purchase such shares with a view to offering them for sale to the public or to effecting a private placing of them. Provided none of the vendors to the issuing house are persons who were engaged or interested in the formation of that company, the document by which the offer is made or placing is effected, although falling within the definition of a prospectus contained in the Act, does not have to comply with any requirements of the Act, with the possible exception of Section 40. However, lest you should think that, in such a case as this, the task of the solicitor is simple and straightforward, let me remind you that the requirements of the Stock Exchange still have to be complied with, assuming, as is almost invariably the fact, that a quotation for the shares is desired. Those requirements are at least as far-reaching, indeed in some cases even more penetrating, than those of the Companies Act itself. But I must admit this, namely, that when the solicitor is in doubt as to how to meet such requirements, he can arrange a meeting with the officials of the Share and Loan Department and agree with them the course to be adopted, whereas no such convenient arrangement is possible when the requirements of the Act apply.

Exemptions from the Fourth Schedule

While, however, every prospectus issued by or on behalf of a company or in relation to an intended company must comply with the requirements of Sections 37 and 41 (that is to say, it must be dated and delivered to the Registrar for registration and have the various consents and other documents attached to it) every such prospectus need not necessarily comply with Section 38, which is the section which brings into play the Fourth Schedule to the Act and, consequently, involves the production of a document such as one normally thinks of when talking about a prospectus. This is because there are certain exceptions to Section 38. These can be stated shortly as follows:

First, the prospectus which an issuing house or firm of brokers circulates to their clients inviting them to underwrite an issue need not so comply.

Secondly, where the offer is limited to the existing shareholders or debenture-holders of a company, Section 38 does not apply. I should perhaps emphasize here that this exemption applies only to an offer by a company to its own shareholders or debenture-holders and does not apply where, for example, a holding company makes an offer, not only to its own shareholders or debenture-holders, but also to minority holders in its subsidiaries or to its or their customers or employees. Conversely, an offer by a subsidiary to the shareholders or debenture-holders of its parent company would also not fall within the exemption.

Thirdly, an offer by a company to the public of shares or debentures which are, or are to be, in all respects uniform with shares or debentures previously issued by that company and for the time being dealt in or quoted on a prescribed stock exchange, is exempted from Section 38. This is a new provision introduced for the first time in the Companies Act, 1948. The expression 'prescribed stock exchange' means a stock exchange prescribed by Statutory Instrument made by the Board of Trade. At present the stock exchanges so prescribed are the London, Birmingham, Edinburgh, Glasgow, Liverpool, Manchester, Bristol, Cardiff, Newcastle and Sheffield stock exchanges.

A Certificate of Exemption

Fourthly and finally, a prospectus need not comply with the requirements of the Fourth Schedule to the Act if a certificate of exemption has been granted by a prescribed stock exchange. The stock exchanges prescribed for this purpose are those named above, other than the last four. This matter is dealt with by Section 39 of the Act, which provides that, where it is proposed to offer any shares in or debentures of a company to the public by a prospectus issued generally, that is to say issued to persons who are not already shareholders or debenture-holders, and an application is made to a prescribed stock exchange for a quotation, there may be given by that stock exchange a certificate of exemption. This is defined as a certificate that, having regard to the proposals (as stated in the request) as to the size and other circumstances of the issue and as to the limitations on the number and class of persons to whom the offer is to be made, compliance with the requirements of the Fourth Schedule to the Act would be unduly burdensome. If such a certificate is granted and if the prospectus, when issued, complies with the requirements of the stock exchange concerned, then it is deemed to comply with the requirements of the Fourth Schedule to the Act, even though it does not in fact do so. This provision also is new and embodied for the first time in the Companies Act, 1948. It is, in my opinion, proving most useful in practice and is often a godsend to the solicitor concerned. My reason for saying this can best be shown by a couple of illustrations.

Assume that company A. has recently been formed and has acquired from the public the whole of the share capitals of two other companies for the purpose of effecting an amalgamation, issuing in exchange its own ordinary shares. Company A. then requires additional capital to finance the business of its subsidiaries and for this purpose decides to make an offer to the public of preference shares or debenture stock. Each acceptance by the original shareholders of the two subsidiaries – and there may well have been hundreds of them – of company A.'s offer to acquire their shares in exchange for ordinary shares in company A. would be a material contract within the meaning of that term as used in the Fourth Schedule to the Act. In consequence, to comply strictly with that schedule, a prospectus issued by company A., offering its preference shares or debenture stock for subscription to the public, would have to contain the date of each such offer and acceptance and the name of each accepting shareholder. In addition, a copy of each contract so made would have to be attached to the copy of the prospectus delivered to the Registrar.

Take another example which arises frequently in practice. A company is in the course of extending its works, and for that purpose has entered into numerous contracts for the acquisition of premises and for the purchase of plant and equipment, and proposes to raise the money it requires to discharge its obligations under such contracts by means of an offer to the public of shares or debentures in its own capital. If a certificate of exemption was not granted, it would, in order to comply with the requirements of the Fourth Schedule, be necessary for the prospectus to state the name and address of each party with whom such a contract had been made and the price payable under each contract and if it were considered – as might well be the case – that such contracts were material contracts, copies of them would have to be attached to the copy of the prospectus which was delivered for registration. In many cases, contracts of this nature number twenty, often many more, and in the result, but for a certificate of exemption, the prospectus would have to be cluttered up with a lot of more or less useless information.

I have now dealt with all the requirements of the

Act to which I intend to refer and I do not propose to take you, in detail, through all the wearisome provisions of the Fourth Schedule.

Private Placings and Introductions

What I want to do next is to tell you what, in my view, are the major functions of a solicitor in connexion with the production of the prospectus itself: but before doing that it may be of some interest if I say a word or two in explanation of the expressions 'private placings' and 'introductions', of which I have already made use. These expressions are commonly used in the City but comparatively few people have a clear conception of what they mean or of the difference between the two.

Private Placings

A private placing is, or should be, used to describe the transaction involved when an issuing house or firm of brokers agrees to subscribe or purchase a block of shares or securities of a company with a view to selling them to their own clients. You may recall that I said a few moments ago that, by virtue of the definition contained in Section 55 of the Act, it is now reasonably clear that an offer, limited only to regular clients of an issuing house or firm of brokers, is an offer to the public. Accordingly, when, as is usually the case, the purchase by the issuing house or brokers and the offer by them to their clients are conditional upon quotation in the shares or securities in question being granted, the document or documents by which the offer is made constitute a prospectus. The usual practice is for the issuing house or the brokers to write a short letter to their clients inviting them to purchase a parcel of the shares or securities in question and to enclose with that letter a copy of the advertisement which the stock exchange requires to be published in the Press as a condition precedent to granting a quotation. The letter from the issuing house or brokers usually contains a statement that the advertisement is deemed to be incorporated in and to form part of it. Those two documents then constitute a prospectus and must together comply with the relevant statutory requirements. It is for this reason that many of such advertisements which you see in the newspapers contain a statement at the top in the following terms:

> 'A copy of this advertisement has been delivered to the Registrar of Companies for registration.'

The mechanics of a private placing are therefore used only when the circumstances are such as would be appropriate for an offer for subscription or sale to the public, but because of the relatively small amount involved or for some other valid reason, an offer to the general public is undesirable. To sum up, and to use a somewhat Irish expression, a private placing is frequently, in the eyes of the law, a private public offer for sale.

Introductions

The fundamental difference, as I understand it, between a private placing as I have described it and an introduction, is that in an introduction the brokers enter into no commitment at all. Accordingly, an introduction only takes place when a company or its shareholders, or some of them, consider that a quotation for the particular shares or securities is desirable, whether for death duty or other reasons, but do not make it a condition that some minimum quantity shall be purchased.

In the case of some introductions, normally where the shares or securities are already well spread and the application for quotation is made by the company for the convenience of the holders, no immediate business may be offering and dealings take place only when buyers and sellers appear. In others usually where the application for quotation is made by the company at the instance of its shareholders or some of them, a few shares are made available in order to establish a price and dealings take place as soon as a quotation has been granted. You may be interested to know that by the rules of the Stock Exchange, London, where an introduction takes place, neither jobbers nor brokers may deal in the shares or securities until a quotation has been granted.

Now the time has come to return to the fortunate or – according to how you view the matter – unfortunate solicitor concerned. I propose to assume that, having listened with due deference to the varying views expressed by his clients, by the issuing house and by the brokers, and having consulted his partners (may I interpolate here to say that if, like me, he is blessed – or should I say cursed – with no less than twelve of them, he will undoubtedly have received at least an equal number of conflicting expressions of opinion), the solicitor has decided that the transaction involves the issue of a prospectus and that the requirements of all four sections and the Fourth Schedule need to be complied with. What is the next job for him to tackle?

The First Draft

The first thing to be done is to prepare a draft of the prospectus. In some cases, usually those in which an issuing house of high standing is involved, the issuing house will prepare a complete first draft of this document and then submit it to the solicitor for revision and approval. At the other extreme, normally where no issuing house is involved, the solicitor is expected to draft the complete document. Indeed, in one case which I can recall, not only was I asked to draft the whole of the prospectus, but also the wording of the auditor's report. Fortunately, in that particular case the business was a sound one, the partner in the firm of brokers concerned, who was personally handling the matter, had an accountant's training and the whole business turned out quite successfully. I must say, however, that I do not, and I am sure you do not either, regard it as part of the solicitor's function to perform this task for the auditors. Perhaps the most usual course is that the solicitor prepares the initial draft of the opening

paragraphs of the prospectus and, say, the last one-third of it, by which I mean the whole of the latter part of the document which normally commences with the heading, 'Statutory and general information', leaving the issuing house or the company to produce those pieces which appear under such headings as 'History and business', 'Premises and plant', 'Management and labour' and 'Prospects, current profits and dividend policy'. But no matter who may prepare the initial draft, it is clearly the business of the solicitor to satisfy himself that the document, when it has reached its final form, does duly comply with all the relevant sections of the Companies Act, including in particular the Fourth Schedule.

Statements in the Prospectus

There are, I am told, some solicitors who consider that, having done this, they have completed their task. I do not agree with that view. The solicitor should, in my opinion, make it his business to satisfy himself, so far as practicable, that all statements of fact contained in the prospectus are true, and that in so far as the prospectus contains expressions of opinion, such expressions are based on reasonable grounds. In so far as such statements or expressions are capable of proof by the production of written documents, the solicitor should, in the absence of special circumstances, insist on production of those documents. He ought also, I think, to endeavour to ensure, not only that all statements made are literally true but also that they are not misleading in the form and context in which they are included. It is this task which is one of the most difficult the solicitor has to perform, because, quite apart from its inherent difficulties, it is surprising how often directors take offence when they are questioned and cross-examined really closely as to statements they have written or authorized. The solicitor, if he is a wise man, will in performing this part of his job seek the closest possible association with and assistance from the accountants concerned. I should like to give just one illustration of the importance of this.

Before the last war I was concerned with an offer, by an extremely well-known and reputable public company, of some preference shares to the public for subscription. One of the leading City firms of chartered accountants were the auditors. In those days it was not more or less common form, as it is now, for prospectuses to contain the sort of statements which are now included under some such heading as 'future prospects'. At that time it was the practice merely to set out the auditor's report showing the net assets and the profits for three to five years past and then to show the cover for the preference dividend by reference either to the yearly average of such profits or to those for the last year.

In this particular case I was at a meeting with the representatives of the company and endeavoured to make the point that the object of setting out past profits was merely to give a guide as to what might be expected for the future, and that a bare statement of past profits might well be held to be misleading if there were any real grounds for supposing that future profits would be lower than those of the past. The directors present did not appear fully to appreciate what I was driving at, but the auditors at once called attention to the fact that while past profits had shown a steady rise, the then state of the company's order book was poor and it might well be that the results for the year then current would show an appreciable deterioration. In the light of this and with the assistance of the auditors it proved possible to persuade not only the directors, but also the firm of brokers who were underwriting that particular issue, to agree to the inclusion in the prospectus of a paragraph indicating the position in this respect.

Had it not been for the support of the auditors in that case, I doubt very much whether I could have persuaded the board and the brokers to accept the advice I was giving them, for I was then both young and inexperienced and was dealing with gentlemen who were all of strong character and some twenty-five or more years my senior.

Future Prospects

This brings me to the next point upon which I should like to touch and that is the paragraph in the prospectus under such a heading as 'Future prospects'. All of you who have had experience of prospectus work will, I am sure, readily agree with me when I say that from a practical point of view this is nearly always by far the most important paragraph in each prospectus and the one which, should events prove any statements to have been wrong, is calculated to lead to trouble. I know that as accountants you take the view, in my opinion quite rightly, that you can only certify actual accounts and cannot therefore make any precise statement as to future profits. At the same time I do feel that you, just as the solicitor, have at least a moral duty to the public and to the directors of the company, on whose behalf you are acting, to take all practicable steps to ensure that any forecasts which are made as to the future, are based on reasonable grounds and to bring out into the open, when the wording of the paragraph in question is under discussion, any possible adverse factors which may be known or occur to you, from your much more intimate knowledge than that which the solicitor would normally possess of the business of the company. It is over the wording of this paragraph that I always particularly value the help and assistance of the accountants.

These paragraphs are in my opinion very dangerous, and should always be toned down to the minimum necessary to meet the requirements of the Stock Exchange and to render the shares or other securities saleable at a fair price. I may add that I take this line even when I am acting only for the issuing house and not for the company and its directors. This, I am sure, is right, primarily because the paramount aim must be not to mislead the public and, secondly, because even if the transaction is such as not to

render the issuing house personally liable for any such statement, nevertheless to be associated with a prospectus which is alleged to have contained false statements cannot but redound to the discredit of the issuing house and all others concerned with the transaction.

The Directors' Position

When the document is approaching its final form, I like to arrange, if I can, a meeting with the directors, or such of them as can be persuaded to take an interest in the matter. It is curious, however, how difficult it is to induce more than one or two directors to attend such a meeting. At this meeting I go through the prospectus with them, word for word, and endeavour to impress upon them that each of them is personally responsible for the accuracy of all statements contained in it and that, should it subsequently transpire that any of those statements are either untrue or misleading in the form and context in which they appear, there is a real risk, not only that the directors may be held personally responsible to refund to the persons who subscribe on the faith of the prospectus the moneys so subscribed by them, but also that the directors may find themselves the subjects of a criminal prosecution, either under Section 44 of the Companies Act or Section 12 of the Prevention of Frauds (Investment) Act. I am always struck by the lack of concern with which such a statement from me is treated by the directors. Whether this is due to an exceptional abundance of courage or a remarkable lack of comprehension possessed by the directors of my client companies, or to insufficient venom, or should I say pomposity, on my part when making such statements, I must leave you to judge. Perhaps it is a happy combination of, or lack of, all these attributes.

A Second Opinion

As those of you who have been concerned with prospectus work will know only too well, the prospectus itself tends to be built up gradually by a succession of different proofs on each one of which many hours are spent in discussing various points and making detailed revisions. The result is that, by the time the document is nearing completion, the attention of the solicitor handling the matter has become so concentrated on the different points which have arisen that it is extremely difficult for him to read the document with an unprejudiced mind and to form, from reading it, the impression which it is likely to convey to a member of the public or other person reading it for the first time. It is for this reason that when time permits, and very often it does not, I like to submit the prospectus at this more or less complete stage to counsel finally to settle or, failing this, to get one of my partners to read it through and comment upon it. It is surprising how often a fresh mind brought to bear in this way can see points which have been overlooked or read certain paragraphs in a sense quite different from that which they were thought by the draftsman to convey. Also, from the same point of view, the necessity to submit the draft to the Share and Loan Department of the Stock Exchange for comment can be most useful. I know that on occasions the comments made by the officials of that department appear, to those familiar with the details of the matter, to be futile and irritating. They do, however, and by no means infrequently, notice points which others have overlooked, and I personally would regret any change in the procedure in this respect. But I suppose that, following the advice I give to my clients on prospectuses, I ought to 'come clean' and disclose to you that I am interested, since I have the privilege of acting as one of the legal advisers to the Stock Exchange.

Subsidiary Legal Work

I hope you will not have gained the impression from what I have said that the solicitor's task is a comparatively light one and does not justify the substantial fees which some of us have the temerity to charge for this kind of work. I would point out in this connexion that what I have said does not by any means describe all the solicitor has to do. In most cases it is necessary for him to prepare and submit an application to the Capital Issues Committee and, more often than not, public issues or private placings arise out of some form of amalgamation or capital reconstruction which, of itself, entails a vast amount of detailed work on the part of the solicitor concerned. Further, while I have limited my remarks to the prospectus itself, there are usually a host of other documents which the solicitor has to prepare, such as the underwriting agreement, service agreements with the directors, notices of shareholders' meetings and resolutions to be passed at them, allotment letters or letters of acceptance and resolutions to be passed by the board carrying the whole transaction into effect. I can assure you, therefore, that a solicitor when engaged on a public issue or private placing leads an extremely hectic life.

Before I sit down I ought to emphasize two points: first, that the requirements of the Act to which I have referred in some detail are those applicable to prospectuses issued by or on behalf of companies incorporated in Great Britain. The requirements of the Act as regards prospectuses relating to foreign companies are contained in different sections, and it would be trying your patience too high to attempt to deal with them in any detail. Broadly speaking, those requirements are much the same as those to which I have referred, but there are certain differences. Secondly, while I believe that what I have told you is a substantially accurate summary of the legal position, I have in certain places summarized the relevant sections of the Act, and this is always a dangerous thing to do. If, therefore, you have occasion to be concerned with prospectus work I would ask you not to rely upon what I have said as constituting a complete statement of the law on the subject, but instead to consult your own legal advisers.

WEEKLY NOTES

The Institute's Examinations

At the examinations of the Institute held in November 1951, there were 1,056 candidates for the Final, of whom 504 (48 per cent) passed, and 552 failed. In the May 1951 examinations, 46 per cent passed. The First Certificate of Merit, the Institute Prize, the 'Walter Knox' Scholarship, the 'O. C. Railton' Prize for the year 1951, and the 'Plender' Prize for the Advanced Accounting (Part II) Paper, were awarded to Mr Harry Edwin Hann, of London; the Second Certificate of Merit was won by Mr William Frederick Masters, of London. The Third Certificate of Merit, the 'W. B. Peat' Medal and Prize, the Auditing Prize, and the 'Plender' Prize for the Auditing Paper were awarded to Mr Frank Collis, of London.

In the Intermediate there were 890 candidates, of whom 368 (41 per cent) passed (in May 1951, 47 per cent passed), and 522 failed. The First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize (with one other), and the 'Plender' Prize for the Taxation and Cost Accounting Paper were won by Mr George Carter, of Leeds; and the Second Certificate of Merit, the 'Stephens' Prize, and the 'Plender' Prizes for the General Commercial Knowledge and the Auditing Papers by Mr Hyman Arnold Sherman, of London.

In the Preliminary, a total of 205 candidates sat; of these 66 (32 per cent) passed and 139 failed. In the May 1951 examinations 28 per cent passed.

The full list of successful candidates in all three examinations, together with a summary of the results, appears elsewhere in this issue.

The Scottish Institute's Examinations

The first examinations since the amalgamation of the three Scottish accountancy bodies into The Institute of Chartered Accountants of Scotland, were held last December, and we have pleasure in giving the results elsewhere in this issue. One hundred and twenty candidates qualified for the Institute's Final examination certificate, and 150 qualified for the Intermediate examination certificate.

The *Olivier* Case Again

The decision of Mr Justice Harman in *Higgs v. Sir Laurence Olivier*, referred to in our issues of July 21st and August 11th, 1951, has been upheld in the Court of Appeal (*The Times*, February 5th, 1952). It concerned the liability to tax of £15,000 received by Sir Laurence in consideration of his covenant not to appear in any film for eighteen months. The Commissioners who heard his appeal against the resulting assessment held that the sum was a capital receipt and not a profit or gain arising from the exercise of his profession as an actor. Mr Justice Harman held that the question was one of fact and declined to interfere. Before the Court of Appeal, Sir Frank Soskice, for the Crown, argued that the payment was an incident in the exploitation of Sir Laurence's personality as an actor. He cited the example of money given to an organ-grinder to induce him to stop playing and go to the next street.

The Master of the Rolls said the agreement was not in the ordinary run of professional practice, and the Commissioners' decision was confined to the peculiar facts. In one sense Sir Laurence got the £15,000, out of being an actor, for a service rendered. But profit 'arising or accruing' from a profession must, in the ordinary sense of the words, arise from the exercise of the profession. There was evidence to support the Commissioners' finding, and the appeal must be dismissed. Lord Justice Hodson considered that the case was covered by *Beak v. Robson*. Leave to appeal to the House of Lords was refused.

The Engineering Industries and the Budget

In its 1952 Budget representations to the Chancellor of the Exchequer, the Engineering Industries' Association points out that withdrawing the initial allowances exposes industry to the full impetus of inflation, hampering still further its efforts to expand armaments and exports production. The association hopes that the Millard Tucker recommendations will be implemented this year, and that the proposal to allow losses against previous years will receive further consideration. In the association's view the extension of earned income relief to sur-tax would make for a more equitable distribution of the tax burden. Like other associations, it considers that the inferences drawn by the Inland Revenue from the recent statistical investigation into the incidence of estate duty are misleading. A more searching inquiry should be made and in the meantime the valuation of a company's assets on a going concern basis under the Finance Act, 1940, should allow for such tax liabilities as would arise if a sale was actually made.

Wages in 1951

A record increase in wage rates was experienced last year. An advance of 10½ per cent may be compared with 4 per cent in 1950 and similar increases to that in the three previous years. Another feature of the year was the much accelerated pace of increase in the closing months.

The largest increases were recorded in the engineering and metal industries, followed by transport, building and mining in that order. It is clear, therefore, that there has been a build-up of pressure from wages in those industries which are likely to be called upon for a special effort in the rearmament drive.

The higher wages which must work themselves out in a larger demand for consumer goods have, paradoxically, coincided with measures to reduce the chronic trade gap. A deficit on international account is deflationary, since goods are being imported without a corresponding draft on goods from the

home market to go for export to pay for them. In recent weeks there have been cuts announced in the import bill which means that much fewer goods will be available to be mopped up by the country's growing purchasing power. This heavy and growing pressure of wages points to one of the main problems of the Budget next month, namely, how to reduce consumer expenditure to meet the cut in imports and the diversion of further goods for export. At the moment, immediate steps have been taken to close the trade gap at the risk of adding to inflationary pressure. Such a state of affairs cannot be allowed to continue for long.

Channelling the Labour Supply

The new Notification of Vacancies Order will make it obligatory for employers seeking labour, with a few exceptions, to find it through the machinery of the labour exchanges. There is, of course, no power to force men applying for work to take up any particular job. They can be advised, they can be even persuaded, that certain jobs are suitable for their qualifications, but there is no means of coercion. Labour is canalized through the exchanges, and that is all.

The likelihood that this new order will have any noticeable effect on the flow of labour from non-essential into essential industries seems remote. If there were likely to be a large increase in the flow of workers through the exchanges (which in itself would be a major sign that a policy of disinflation is working) there would be little difficulty in persuading men to take jobs, at what would after all be good wages, in the essential occupations. If, on the other hand, there is little more than the trickle of labour which now comes on to the market seeking work, it is difficult to see these marginal workers necessarily moving towards essential jobs. That would only be so if the exchanges were able to 'undersell' the non-essential job which is near the applicant's home and do a sizeable selling job for the berth that is vital for defence but inconvenient to the worker. Such salesmanship is possible – but improbable.

Future of the Utility Scheme

The recent economic debate and the extension of the revised pricing arrangements on utility goods to an ever-widening range of textiles has raised a good deal of discussion about the future of the utility scheme in general.

The trades concerned are by no means unanimous in their reactions to the abandonment of the scheme. The merchant tends to argue that he needs greater flexibility in his home market to try out designs and so on which are to sell abroad. The spinner and the weaver may take the view that the abolition of the scheme will mean the end of long runs and the economies which follow from them. There are various gradations of opinion in between these extremes, however. There is, too, a growing opinion that freedom from the scheme would generally open up trade at a time when stocks are sticking and retail houses are having a lean time. In so far as this is an argument for the end of a period of contraction for some sections of the textile industry, it may not receive a great deal of sympathy from those who have to guide public economic policy. Since there are about half a million workers who are at present making goods which are not essential for national survival there are bound to be some industries which must contract to provide some of the operatives to be transferred. This may be a bitter pill for many industries to swallow, especially as they can put up a case for conserving their level of output for export. But any industry can put up a case and the price system may be as good an impersonal arbiter on the issue of expansion or contraction as any other.

Textiles Stock Position

The slump in sales of textile goods in the shops in the later months of last year and the efforts of wholesalers to adjust their stocks to the changing marketing conditions are re-echoed in the end-year sales and stock figures for wholesale textiles put out by the Wholesale Textile Association.

Wholesale textile sales were down heavily in the months of November and December. But as the accompanying table shows, the actual decline from October to December was not remarkable compared with the same seasonal experience in the two previous years.

(1947 equals 100)

I – SALES

	1951	1950	1949
October ..	146	186	158
November ..	134	159	151
December ..	96	112	103

It is the stock position over the same months which is the more interesting. But here again it is not the fact that wholesalers made large adjustments to their stocks by particularly severe cuts in their buying. As the following table shows, such an adjustment to stocks is a seasonal phenomenon. The outstanding feature of the figures is the high level of stocks which wholesalers had to cope with just at the time when retail houses began to feel the pinch. The high level of stocks was noticeably reduced by the end of the year but there still remained large quantities in wholesalers' hands.

II – STOCKS

	1951	1950	1949
October ..	235	152	129
November ..	228	144	123
December ..	211	141	128

A situation such as this may go some way to explain why the manufacturing industries have been so slow to record any encouraging improvement in their output during the first month of this year. It had been expected in Lancashire, the West Riding, and in the hosiery industry round Nottingham that there would be some noticeable recovery in the early weeks of 1952, a hope that has been in many cases deferred.

FINANCE AND COMMERCE

Issue of a Southern Rhodesia $4\frac{1}{2}$ per cent 1977–82 loan for £$7\frac{1}{2}$ million at par has consolidated a new interest line for the gilt-edged market. While admitting the need to make any new issue as attractive as possible under present circumstances, the terms of the new operation must be taken as indicating the authoritative view of present interest rate levels. The Southern Rhodesia issue, it is assumed, will be followed by others which may possibly point the way to still dearer borrowing terms.

Bank of Montreal

This week's reprint makes a change. It provides the accounts of the Bank of Montreal – Canada's first bank, now in its 135th year. We have omitted the bank's general statement, the figures from which are incorporated in the comparison of balance sheet figures.

In the original, these accounts form part of a fifty-page, 6 in. by 9 in. booklet, in which the accent from the coloured picture on the front cover, of the cheery customers in the savings department, is thrift.

Mr B. C. Gardner, in his presidential address at the annual meeting, told shareholders that closely linked with the problem of inflation was the vital role which saving plays in the welfare of the community. 'We stand at present,' he declared, 'in need of a great re-emphasis on the place and value of saving as a force on the side of stability.'

Mr Gardner's concluding remarks are worth recording. 'To emphasize, as I have tried to do,' he said, 'the place of productivity and thrift as fundamental requirements of stability and strength is to preach a very old-fashioned doctrine. It is a doctrine, however, which has lost some of its compelling force in a generation that is perhaps prone to believe that welfare is something created by an Order-in-Council.

'As economic life becomes more complicated, its great and simple realities tend to become obscured. But they continue to operate none the less.'

In the Beginning

'Our forefathers who came to a Canada of trackless wilderness,' Mr Gardner continued, 'could perhaps see these realities in a clearer light. Their knowledge of economics was I imagine, pretty sketchy. Their social philosophies may have been crude. But "welfare" and "progress" had for them to be wrested from the unfriendly elements of nature.

'Today, after breath-taking advances in technology, those fundamentals of progress – work and thrift – have lost none of their validity. And the lesson of history seems to be that the enemy is forever lurking around any nation whose progress has been such as to induce self-satisfaction.

'The threat from without is today very evident', Mr Gardner concluded. 'The threat from within is a more subtle thing. Fascinated by our past achievements and by our future potentialities, we can become the victims of well-intentioned but wishful thinking.

'Now, as always, security and welfare are not free for the taking, but the rewards of constructive effort and intelligent realism.'

Many accountants who have taken the plunge into practice on their own account will recognize in these words some of the thoughts and feelings which have urged them onward to that measure of success which they have attained.

Statement of Position

'It is, of course, impossible to fit a sensible statement of position into the framework of the Companies Act, 1948', wrote Mr W. S. Hayes in the concluding paragraph of his interesting letter which appeared on page 580 of *The Accountant* of December 15th, 1951.

Mr Chas. W. Aston, A.C.A., agrees. One would prefer, he says, to reserve judgment on the ingenious form of presenting a company's financial position which Mr Hayes puts forward, but in his final conclusion he is 'perfectly right'.

Mr Aston quotes a balance sheet which under the heading of 'Revenue reserves' listed:

> A contingencies reserve set aside against the replacing of existing assets at costs which will inevitably be much greater than the original cost;
>
> A reserve for future taxation which will have to be paid out in the following year whether any profits are earned in that year or not;
>
> And an income-tax initial allowances reserve which represents the tax relief obtained on initial allowances.

This relief, Mr Aston points out, will presumably

BANK OF MONTREAL
Profit and Loss Account

		$
Profits for the year ended October 31st, 1951, after making appropriations to Contingency Reserve, out of which full provision for Bad and Doubtful Debts has been made		11,312,900.06
Provision for Depreciation of Bank Premises, Furniture and Equipment		956,526.40
		10,356,373.66
Provision for Dominion Income Tax and Provincial Taxes ..		5,001,000.00
		5,355,373.66
Quarterly Dividend $2\frac{1}{2}$ per cent paid March 1st, 1951	$900,000.00	
Quarterly Dividend $2\frac{1}{2}$ per cent paid June 1st, 1951	900,000.00	
Quarterly Dividend $2\frac{1}{2}$ per cent paid September 1st, 1951	900,000.00	
Quarterly Dividend $2\frac{1}{2}$ per cent payable December 1st, 1951	900,000.00	
Extra Distribution 2 per cent payable December 15th, 1951	720,000.00	
		4,320,000.00
Amount carried forward		1,035,373.66
Balance of Profit and Loss Account, October 31st, 1950 ..		3,498,708.30
		4,534,081.96
Transferred to Rest or Reserve Fund		3,000,000.00
Balance of Profit and Loss Account, October 31st, 1951 ..		$1,534,081.96

be drawn upon in future when wear and tear allowances are less than they would have been had there been no initial allowances.

Education Difficult

Had I been asked to give examples of capital reserves, i.e. reserves which are not free for distribution, Mr Aston continues, I should have instanced, among others, those three. 'One again sees examples of how difficult it is to conform to the strict interpretation of the Companies Act in the profit and loss account which accompanies the balance sheet.

'Under the heading of "Provision for taxation" appear the items "Income-tax based on current profits" and "Transfer to income-tax initial allowances reserve". Neither of these amounts is, strictly speaking, a provision, and the second, according to the purist, should be treated as an allocation of profit; yet the net profit is stated as such without any reservations.'

To carry the matter a stage further, says Mr Aston, a transfer to the contingencies reserve, which is stated to be required against the replacing of existing assets, 'is shown as an allocation of net profit, although industry is loud in its assertion that there can be no net profit until full provision has been made for the replacing of its existing assets.

'Almost by the same post, I received a copy of the F.B.I.'s latest statement in which they exhort industry to educate people in the meaning of published accounts. How difficult that task is being made can only be appreciated when one sits down to commence the task of education.'

Money Market

Tenders for Treasury bills at the Bank of England on February 1st totalled £249,790,000 and showed only little change from the previous week's figure of £247,215,000. The market syndicate maintained its bid at £99 15*s*, to which it had been lowered a week before and obtained 52 per cent of requirements against 55 per cent previously.

The whole of the £170 million of bills offered was allotted with the average rate at 19*s* 10·64*d* per cent against 19*s* 10·74*d* per cent on January 25th. This week's offer of bills is £170 million. There is again no call against Treasury deposit receipts. The last use made of the receipts by the authorities was in the week ending September 29th, when the call was for £25 million in 154-day maturities.

BANK OF MONTREAL

Comparison of Balance Sheet Figures – October 31st, 1951, and October 31st, 1950

(Condensed and rearranged from the Annual Statements as certified by the Auditors)

Assets	October 31st, 1951 $	$	October 31st, 1950 $	$
Cash, Clearings and Due from Banks				
Notes of and Deposits with Bank of Canada	213,532,302		221,556,119	
Gold and Subsidiary Coin	3,171,567		2,835,740	
Notes of and Cheques on Other Banks ..	137,487,872		114,344,080	
Government and Bank Notes other than Canadian	1,307,363		1,025,540	
Deposits with and balances due by other Banks	42,928,442		36,643,507	
		398,427,546		376,404,986
Investments (not exceeding market value)				
Dominion Government Securities	738,683,687		804,220,176	
Provincial Government Securities	101,125,909		123,606,359	
Canadian Municipal Securities	44,909,085		49,152,486	
Public Securities other than Canadian ..	92,232,148		53,069,583	
Other Bonds, Debentures and Stocks ..	131,223,533		128,050,593	
		1,108,174,362		1,158,099,197
Call Loans (against marketable securities)				
In Canada	13,522,620		27,684,170	
Elsewhere	14,624,555		40,288,227	
		28,147,175		67,972,397
Current Loans (estimated loss provided for)				
Current loans and discounts in Canada ..	558,235,541		479,611,399	
Current loans and discounts elsewhere ..	25,773,330		21,098,388	
Loans to Provincial Governments ..	8,819,674		5,829,316	
Loans to cities, towns, municipalities and school districts	24,946,605		21,188,560	
		617,775,150		527,727,663
Non-current Loans (estimated loss provided for)		446,013		304,703
Liabilities of Customers under Acceptances and Letters of Credit as per contra ..		45,946,487		38,657,381
Bank Premises		20,184,246		18,450,760
Other Assets		2,529,335		2,912,281
		$2,221,630,314		$2,190,529,368

Liabilities	October 31st, 1951 $	$	October 31st, 1950 $	$
Deposits				
By Dominion and Provincial Governments	79,180,104		112,597,354	
By Public payable on demand in Canada ..	710,138,951		688,910,930	
By Public payable after notice in Canada ..	1,078,339,963		1,093,132,538	
Deposits in Canada in currencies other than Canadian	41,446,852		17,654,811	
Deposits elsewhere than in Canada ..	79,985,984		75,692,350	
Deposits by and balances due to other Banks	96,095,237		74,609,802	
		2,085,187,091		2,062,597,785
Acceptances and Letters of Credit outstanding		45,946,487		38,657,381
Other Liabilities to the Public		322,768		859,237
Dividends declared and unpaid, including Provision for Extra Distribution		1,639,886		916,257
Capital paid up	36,000,000		36,000,000	
Rest or Reserve Fund	51,000,000		48,000,000	
Balance of Profits, as per Profit and Loss Account	1,534,082		3,498,708	
		88,534,082		87,498,708
		$2,221,630,314		$2,190,529,368

BANK OF MONTREAL TRUST COMPANY

Balance Sheet as at October 31st, 1951

Assets	U.S. Currency $	$
Due from Banks:		
Approved Reserve Depositaries	180,789.13	
Other Banks and Bankers (Foreign)	12,624.37	
		193,413.50
Investments:		
*United States Government Securities .. .. (Quoted Market Value $1,657,550.00)	1,651,092.90	
Accrued Interest	10,128.43	
		1,661,221.33
*These include $100,000 United States of America Treasury Bonds which, in accordance with New York State Banking Law, are deposited with and registered in the name of the Superintendent of Banks of the State of New York.		
Other Assets		25,712.24
		$1,880,347.07

Liabilities	U.S. Currency $	$
Deposits:		
Trust Funds	1,072.09	
Demand	102,657.16	
Time	23,272.18	
Due to Banks, Bankers and Trust Companies	1,389.11	
		128,390.54
Reserve for Taxes		7,506.33
Other Liabilities		980.05
Capital and Surplus:		
Capital Stock:		
Authorized, Issued and Fully Paid – 10,000 shares of $100.00 each	1,000,000.00	
Surplus	650,000.00	
Undivided Profits	93,470.15	
		1,743,470.15
		$1,880,347.07

Note:

The Charter was acquired in March 1937 for the purpose of more satisfactorily performing certain functions in New York on behalf of the Bank's clients. The Capital Stock, with the exception of the Directors' qualifying shares, is entirely owned by the Bank and is carried in the Bank's statement at a value of $1,489,550.54.

HOCHELAGA REALTY AND DEVELOPMENT COMPANY

Balance Sheet as at October 31st, 1951

Assets	U.S. Currency $	$
Cash		41,627.14
Prepaid Taxes, Insurance, etc...		22,031.98
Investments:		
United States Government Securities .. .. (Quoted Market Value $138,697.00)	140,256.24	
Accrued Interest	421.88	
		140,678.12
Real Estate, Buildings and Equipment (64–68 Wall Street, New York) less Reserves for Depreciation		1,072,427.20
		$1,276,764.44

Liabilities	U.S. Currency $	$
Accounts Payable		2,984.17
Accrued Debenture Interest		1,666.66
Reserve for Taxes		3,529.83
Twenty-year 2½ per cent Debenture Bonds due March 1st, 1970:		
Authorized	1,500,000.00	
Issued		400,000.00
Capital Stock:		
3 per cent Redeemable Preferred:		
Authorized, Issued and Fully paid – in exchange for bonds matured – 8,500 shares of $100.00 each	850,000.00	
Common:		
Authorized, Issued and fully paid – 100 shares of $100.00 each	10,000.00	
		860,000.00
Undivided Profits		8,583.78
		$1,276,764.44

Note:

The Company was granted corporate existence by the State of New York on May 27th, 1909. The object of its formation was to enable the Bank to hold title to real estate in New York City. The Capital Stock and Debentures are entirely owned by the Bank, and are carried in the Bank's statement at a nominal value of $1.00.

THE ST JAMES LAND COMPANY LIMITED

Balance Sheet as at October 31st, 1951

Assets	U.S. Currency $	$
*The rights of the Company in an emplacement conveyed to Insurance Exchange Corporation Ltd by a 99-year lease (emphyteutic lease) and in the building thereon constructed by Insurance Exchange Corporation Ltd as at January 23rd, 1923	200,000.00	
Expended on the building to date	117,205.14	
	317,205.14	
Less Reserve for Depreciation..	117,204.14	
		200,001.00
		$200,001.00

Liabilities	U.S. Currency $	$
Capital Stock:		
Authorized, Issued and Fully Paid – 200 Shares of $100.00 each ..		20,000.00
Capital Surplus		180,001.00
		$200,001.00

* *Note:*

These rights have been hypothecated by The St James Land Company Limited, Montreal, to the extent of $242,545.45 to secure bonds and mortgage of Insurance Exchange Building Limited, successor to Insurance Exchange Corporation Limited, for the payment of which amount The St James Land Company Limited is not personally liable. The Capital Stock is entirely owned by the Bank, and is carried in the Bank's statement at a nominal value of $1.00.

C. W. HARRIS,
I. A. McCARTHY,
Directors.

REVIEWS

Lord Plender: Some Writings and Speeches

Edited by Lady Plender

(Gee & Co (Publishers) Ltd, London. 10s 6d net)

The contents of this memorial volume reveal a profound knowledge of men and affairs and a pleasing literary style without which two qualities the spoken word, when reproduced in print, seldom sparkles. Lord Plender, one imagines, like Keats, never wrote for the sake of writing but always to communicate some piece of knowledge or experience, the product of many years of reflection. He was able quickly to recognize the essential facts in any problem or situation and to know at once what to discard as irrelevant. This gift of discernment doubtless helped him to attain the position of eminence he held for so long in the professional and financial world of our time. It certainly gave point and precision to his addresses which, whether delivered to scholars or students or to his contemporaries in the City or in the House of Lords, were, and still are, models of their kind.

Guide to Company Balance Sheets and Profit and Loss Accounts

by Frank H. Jones, F.A.C.C.A., A.C.I.S.

(W. Heffer & Sons Ltd, Cambridge. 25s net)

The new edition of this useful book has been revised and enlarged to include additional chapters on simplified accounts and directors' reports and other contacts between board room and shareholders. As we said of an earlier edition, it is a mine of information and not the least of its virtues is the ease with which it can be read. The author has certainly the gift of expressing himself lucidly despite the inherent intricacies of his subject.

An Examination of the Methods of Keeping Ratepayers' Accounts in England and Wales

A Comparative Examination of the Methods of Scheduling Accounts and Expenditure Analysis used by Local Authorities in England and Wales

(Institute of Municipal Treasurers and Accountants, London. Each 20s net.)

The research committee of the Institute of Municipal Treasurers and Accountants has undertaken a number of research studies into practical problems of local government finance. These two books are the first to be published and both should be useful to chief financial officers of local authorities.

Perhaps the most surprising thing about the methods of keeping ratepayers' accounts is the variety. In many cases chief financial officers have introduced refinements into existing systems, whilst in others no attempt seems to have been made to see if any improvement were possible. 'We've always done it that way' denotes an attitude of mind that should be less frequently in evidence as a result of this volume, for the research workers have tackled their job resolutely and have done it well.

Mr E. L. Jones, F.I.M.T.A., Borough Treasurer of Holborn, is responsible for the book and he has produced an excellently written report that is easily read and which stimulates thought. In a pleasingly simple style he sets out the various methods encountered during the research and by bringing together the experiences of so many financial officers he has done a big service to local government.

This book will assuredly be of value to every rating authority, large or small, and as a result it is possible that complacency about present methods may be shaken and many systems of keeping ratepayers' accounts overhauled.

The second volume deals with the methods of making payments to creditors and analysing them prior to entering amounts in the nominal accounts. Although this sounds a very elementary principle, it is of such importance in local government finance that it was well worth the attention of a research group. The various committee systems and the differing requirements of local authorities have meant that there is no uniform procedure in the payment of accounts, and an adequate record of payments is doubly necessary when, as is usual in municipal book-keeping, there are no creditors' accounts.

Many alternative methods had to be examined before Mr John Drury, A.I.M.T.A., of the Leicester City Treasurer's Department could produce his report. The book is not so easily read as its companion, but Mr Drury had to contend with the differing definitions given to the same processes or documents by various authorities. The technical terms which are used in the book have to be thoroughly understood before the subject-matter can be readily assimilated, and they have not always been happily chosen. Nevertheless, this research has been conscientiously undertaken and the book should be useful to financial officers of local authorities.

Ranking & Spicer's Company Law (Ninth Edition)

by H. A. R. J. Wilson, F.C.A., F.S.A.A., and T. W. South, B.A., Barrister-at-Law

(H.F.L. (Publishers) Ltd, London. 25s net)

The latest edition of this now standard work contains entirely new chapters on liquidations and includes recent House of Lords and Court of Appeal decisions on the rights of preference shareholders in a winding-up. It is meticulously documented and indexed, which makes for easy reference, and such physical qualities as clear print, broad margins and a supine disposition when opened and laid flat on a desk make it an attractive volume to handle and read.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Examination Candidates

SIR,– Ten would-be A.C.A.s
Going up to town,
Hoped to pass their 'Inter.',
But most of them 'went down'.

Eight would-be A.C.A.s
Thought this will not do,
Their articles would finish,
And not the 'Inter.' through.

Six would-be A.C.A.s
Tried again once more,
Two pass through the Golden Gates,
Now left only four.

Four would-be A.C.A.s
Feeling very sad,
Wonder what's gone wrong with them –
Thought that they could add.

Two of them get safely through
In January nineteen fifty-two,
But of the third we haven't heard.

The fourth will try again in May
For this elusive A.C.A.

Yours faithfully,
Taunton, Somerset. ELSIE E. EASLICK.

The Verification of Stocks

SIR, – In brief, your leader of January 19th quotes the American Institute of Accountants' directive as requiring their members: (*a*) to attend the taking of physical inventory; (*b*) to satisfy themselves as to (1) the effectiveness thereof; and (2) the reliance which may be placed on the client's representations as to inventories and the records thereof.

Your leader concludes:

> 'In this country, with neither legal obligation to observe nor professional recommendation to follow, opinion on the question is divided. It is likely, however, that most accountants would consider that a thorough investigation of the methods of stores control in operation affords a better indication of the probable quantitative accuracy of the stocks than does actual physical inspection.'

You appear to infer that the procedure outlined in your conclusion is preferable to that in the A.I.A. directive.

I submit the following comments:

(1) The amount of the closing inventories is the major component in computing the profits of the period and as such it is the most important item while at the same time being the most difficult to verify.

It would therefore seem that all possible steps should be taken to test and, as far as possible, check its accuracy.

(2) Effective methods of stores control cannot, in themselves, ensure accuracy in computing physical inventories – but a comparison of the results of the latter with the inventory accounting records, and an investigation of the possible reasons for differences, can help much to do so.

(3) Our auditors have carried out the terms of the A.I.A. directive for many years and we welcome and derive real operating benefits from their presence and their assistance and from the comments they make on our physical inventory procedure and records.

As a profession we have travelled a long way since the *Kylsant* case – but slowly, and generally reluctantly. I submit that we shall reach the A.I.A. directive stage in due course – and that until we do we have no better or even equally sound alternative procedure.

Yours faithfully,
W. F. EDWARDS, A.S.A.A.
Director and Treasurer,
London, SW1. GENERAL MOTORS LTD.

Ministry Costing

SIR, – Now that rearmament contracts have been placed, accountants will be involved in the complications of Ministry cost investigations.

I have to design an accounts system for a subsidiary company which will undertake Government work within the holding company's premises and organization. The subsidiary will use many of the holding company's facilities, such as telephone, staff, floor-space, lighting, heating, etc., all at varying times. How can I arrive at a reasonable division of expenditure without recording the incidental time spent for the subsidiary?

It has been suggested that the holding company could charge the subsidiary with a service fee to cover the use of their facilities; must this fee be accurately assessed and what will be the attitude of the cost investigators? Will they seek to establish the basis of the agreement from the holding company's records? What written form is required and should it be minuted in each company's minute book?

Many of your readers must have experienced the difficulty of segregating dual overheads and I should appreciate their views from their wartime experiences.

Yours faithfully,
W. C. L.

Universities Accountancy Scheme

SIR, – I would be very grateful if prominence could be given to the undergraduate contribution to the universities accountancy scheme by publication of the following information:

A luncheon was held by the Birmingham University

Accounting Society on January 22nd, 1952, at which the guests were members of the local joint committee for the universities accountancy scheme. A discussion was held afterwards, at which undergraduates put forward their views on the scheme, under which they are studying, and were presented with the professional aspect. The luncheon proved a success, and provided an occasion for the establishment of good relations between the undergraduate society and the professional society.

Yours faithfully,
JOHN B. R. MORRIS,
Chairman, Accounting Society.

Chancellor's Hall,
Birmingham, 15.

Form Reform

SIR, – We are in favour of standardization, but wonder why in the specimen order form which you produced in your issue of January 19th, 'B' should be put before 'A'.

The serial number is placed in the top right-hand corner for easy reference, and we think the name of the addressee should be as near to the serial number as possible because this should also be available readily. We agree that the sender as well as the receiver of the form both need to refer to it. For the sender all the information at 'A' will be the same and it is the name at 'B' which he will wish to see as easily as possible. It is doubtful whether the receiver of the order will take the same advantage of the position of the sender's name, but we should be interested to know if this is the reason for putting 'A' after 'B'.

Yours faithfully,
WINGAR.

[Mr L. G. Watkins, Head of Publications and Information Department, British Standards Institution, writes: The information given in field A, i.e. the sender's name, address, etc., is not necessarily given *after* field B, but part may be above the address of the recipient. One of the main factors in deciding to standardize the addressee's field to the left of the forms covered in B.S. 1808 is for ease of typing, as the address is lined up with the margin and does not require the use of a special tabulation stop. The serial number in the top right-hand corner of the form is normally printed and not typed.]

Maintenance Expenditure: Income Tax Relief

SIR, – The opinion of your readers is sought as to whether there exist any means of obtaining income-tax relief in respect of maintenance expenditure (including the making good of dilapidations) in the year of assessment in which the lease of a private house expires and is not renewable.

It seems that, through relief being normally given on the average of the *preceding* five years, the benefit of substantial expenditure may be lost if dilapidations cannot be made good until the last year of assessment.

Yours faithfully,
CUL-DE-SAC.

Foreman's Incentive

SIR, – With reference to the letter from 'Horticulturist' published in your issue of January 26th, the following bonus scheme provides an incentive to economy in the expenditure of time and money.

Sales less Purchases, divided by Wages, with the inclusion of a factor to produce the desired result, e.g.:

$$B = 100\left(\frac{S-P}{W} - 1{\cdot}2\right)$$

The factor B would represent the bonus in pence payable for each £1 of wage or salary.

Assuming sales £5,000, purchases £2,000, wages £2,000,

then
$$100\left(\frac{5{,}000-2{,}000}{2{,}000} - 1{\cdot}2\right) = 30$$

yielding thirty pence per £1 of salary or 12½ per cent bonus.

The factor required can be produced by a calculation of past experience of sales, purchases and wages. The formula must not be permitted to produce a bonus during a period of loss. The purchases will include *all* expenses other than wages. The wages figure will of course include the bonus paid in any period. Capital expenditure or sale of capital items are excluded from the figures.

I should be happy to give your inquirer further information should he care to get in touch with me.

Yours faithfully,
SECRETARY.

Standard Costs: A Case of Eggs

SIR, – May I refer to the letter on standard costs from Mr A. Pakenham-Walsh in your January 19th issue.

Although I agree with the feelings of Mr Pakenham-Walsh that standard costing is the most advanced form of costing and management accounting yet devised, I do not feel that his example will raise very much enthusiasm for the system in the minds of our fellows who are less familiar with the concept of this system. Surely any poultry-keeper would be aware of the fact that in the period he was 'down the course' to the extent of £10 without standard costs having to reveal this to him.

Yours faithfully,
C. D. JACKSON, A.C.A.,
Chief Financial Accountant.
COLGATE-PALMOLIVE-PEET LTD.

London, WC2.

Welfare State

SIR, – H.M. Stationery Office *Daily List of Government Publications*, January 30th, 1952, records the reprinting of various previous publications. Here are the first three titles, in the order shown in the list:

'Employment Policy'.
'Post-war Loaf'.
'Pensions'.

Yours faithfully,
1880 AND ALL THAT.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

London and District Society Annual Dinner and Dance

The annual dinner and dance of the London and District Society of the Association of Certified and Corporate Accountants was held at *The Dorchester Hotel*, London, on Thursday, January 31st, 1952. Mr R. W. Wilson, F.A.C.C.A., President of the Society, Mrs J. C. Latham, and the Rt. Hon. Lord Latham, J.P., F.A.C.C.A., President of the Association, received the 280 members and guests, among whom were:

Mr J. R. W. Alexander, M.A., LL.B. (*President, Chartered Institute of Secretaries*); Dr A. M. Allen, M.A., B.COM., PH.D. (*Secretary, Chartered Institute of Secretaries*), and Mrs Allen; Mr Stanley J. D. Berger, M.C., F.C.I.S. (*Director, Institute of Cost and Works Accountants*), and Mrs Berger; Mr L. F. Cheyney, F.I.M.T.A., F.S.A.A. (*Secretary, Institute of Municipal Treasurers and Accountants*), and Mrs Cheyney; Mr I. A. F. Craig, O.B.E. (*Secretary, Society of Incorporated Accountants and Auditors*), and Mrs Craig.

Mr G. V. C. Darley, F.R.I.C.S., F.A.I. (*President, Corporation of Insurance Agents*) and Mrs Darley; Mr Derek du Pré (*Editor of 'The Accountant'*), and Mrs du Pré; Mr L. C. Hawkins, F.S.A.A. (*Member, London Transport Executive, Member, Council of the Society of Incorporated Accountants and Auditors*), and Mrs Hawkins; Mr J. A. Jackson, F.C.A., F.S.A.A. (*President, Incorporated Accountants' London and District Society*), and Mrs Jackson; Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A. (*Director and Secretary, Association of Certified and Corporate Accountants*), and Mrs Latham; Mr T. Lister, M.A., C.A. (*President, Association of Scottish Chartered Accountants in London*), and Mrs Lister.

Mr Alan S. MacIver, M.C. (*Secretary, Institute of Chartered Accountants in England and Wales*), and Mrs MacIver; Mr E. H. S. Marker, C.B (*Under Secretary, Board of Trade*), and Mrs Marker; Mr A. W. Muse, F.A.C.C.A., F.C.W.A. (*President, Institute of Cost and Works Accountants*), and Mrs Muse.

A toast to 'The Association of Certified and Corporate Accountants' was proposed by Mr Derek du Pré, Editor of *The Accountant*, who gave details of certain events in the history of the Association, outlining its development to its present position in the professional and economic life of the country, and paying a tribute to the leading parts played by the President, Lord Latham, and by the Director and Secretary, Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A.

Replacement of Capital Assets

In the course of his reply to the toast, Lord Latham said:

'One of the problems of this post-war world with which we as accountants, and the industrialists whom we serve, are faced, is that of how to provide adequately for the replacement of capital assets in the face of the upward movement of prices; and also the replacement of consumable stocks.

'The impact of rising prices and of high taxation is leading to an eating up of capital. There is an erosion of capital in the guise of profit – whether it be distributed or retained.

'In the days of a stable currency and consequent relative stability of prices, the traditional practice of basing depreciation provisions on original, or, as we now say, *historical*, cost – to give it, I suppose, a proper sense of remoteness – did, by and large, meet the needs of the case.

'That practice had weighty arguments in its favour, to which accountants have been firmly anchored; the practice also acquired reinforcement from long tradition. But in the changed conditions of today its inadequacy is becoming daily more manifest.'

Conventional Accounting must be Reviewed

He continued:

'In the continuing presence of new conditions, conventional accounting, like other techniques, however long established, must be reviewed and, if need be, adjusted.

'After all, there is nothing sacrosanct about the practice of basing depreciation provisions on historical cost; it was adopted and has been followed because in the past, generally speaking, over the life of the asset it was adequate for its replacement; this is no longer the case, as we all know. That this established practice was precise and factual, and excluded any element of estimation of the cost of ultimate replacement, is, in my view, no sufficient reason for adhering to it, when manifestly it fails to provide for known future liability, and artificially distorts what is *true* profit. Accountancy must be progressive: it must not become obscurantist in the name of safety or tradition. The actual present-day cost of the use of capital assets in the course of business, like the consumption of stock, is a *charge* against revenue, and should so be treated in the measurement of profit and, what is no less important, in the computation of profit liable to tax.

'The present taxation practice is in fact a taxation of capital which cannot fail to have the most serious consequences for the due renewal of the country's capital equipment at a time when modern, up-to-date equipment is so essential for greater efficiency and increased production.

'Similar considerations apply to the valuation of stock where replacement costs are higher than actual cost.

'This is a problem which must be resolved; it cannot be allowed to drift, for it concerns the measurement of what is 'true' profit and what is equitable taxation.

'I suggest also that this problem has a significance wider than the material and financial considerations I have mentioned, important as they are.

Relations between Capital and Labour

'In these days the equitable distribution, between labour and capital, of the rewards of industry, is a matter of growing importance in promoting and maintaining good and co-operative relations between labour and capital, which are so essential if greater efficiency and increased production are to be secured.

'Now, the publication of figures of profit which are unreal, and which are in fact inflated by the inclusion of elements of capital loss, result in giving a distorted picture of the relative rewards which no technical explanations can successfully remove. For in this, as in other aspects of life, not only should equity be done but it must be seen to be done.

'The effect on the mind of labour of the publication of profit figures artificially inflated by the facts I have mentioned, cannot be lightly disregarded.' (Hear, hear.)

Lord Latham concluded with a brief comment on the present state of the nation.

The toast of 'The Guests' was proposed by Mr R. W. Wilson, F.A.C.C.A., President of the Society, in a charming speech, and acknowledged by Mr J. A. Jackson, F.C.A., F.S.A.A. Mr Wilson then proposed a toast to Mr E. T. Westmacott, F.A.C.C.A., F.C.I.S., Hon. Secretary of the Society, expressing his appreciation of the work he had done; this was greeted with applause.

The dinner was followed by dancing and entertainment.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Results of Examinations held in November 1951

FINAL EXAMINATION

Held on November 27th, 28th, 29th and 30th, 1951

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the 'Walter Knox' Scholarship, the 'O. C. Railton' Prize for the year 1951 and the 'Plender' Prize for the Advanced Accounting (Part II) paper
Hann, Harry Edwin (F. H. Cropp), London.

Second Certificate of Merit
Masters, William Frederick (G. W. Wilks), London.

Third Certificate of Merit, the 'W. B. Peat' Medal and Prize, the Auditing Prize and the 'Plender' Prize for the Auditing paper
Collis, Frank (R. Kandler), London.

Fourth Certificate of Merit
Mellows, Peter James (C. R. Goulder), London.

Full List of Names of Successful Candidates
(in alphabetical order)

Adams, D. R. (J. E. Critchley), Oxford.
Adams, T. E. (I. H. Wilkins), London.
Albrecht, H. A. (L. C. Mayer-Nixson), London.
Allen, T. W. (C. S. Stephens), London.
Allnatt, M. B. (D. V. L. Craddock), Reading.
Anderson, M. A. (A. E. Spicer), London.
Andrews, D. A. (E. T. Wood), London.
Andrews, P. S. (D. J. Kean), London.
Angus, P. (R. J. Carter), London.
Antognoli, J. V. (N. F. Button), London.
Archbold, D. (F. Phillips), Newcastle upon Tyne.
Arnold, B. (V. L. Thompson), Birmingham.
Ashford, J. C. P. (P. R. Frere), London.
Atkins, K. F. (W. E. Burnley), Yeovil.
Atkinson, J. R. (J. S. Hanson), Dewsbury.
Attfield, D. V. (E. N. C. Hewens), London.
Austin, J. E. (L. V. Mills), London.
Aynsley, W. (H. A. Edwards), Newcastle upon Tyne.
Ayre, G. B. (H. A. West), Berwick-on-Tweed.

Bailey, (Miss) A. M. (G. J. W. Bean), London.
Bailey, E. S. (R. H. Herington), Birmingham.
Bainbridge, H. A. (A. Johnson), Liverpool.
Balden, R. S. (W. H. Shaw), Dewsbury.
Bales, E. (A. Dawson), Sheffield.
Balls, H. J. (A. S. H. Dicker), Norwich. (*'Plender' Prize for the English Law (Part II) Paper.*)
Balmforth, A. F. (H. Morland), Liverpool.
Bancroft, J. N. (H. R. Mole), Taunton.
Barber, S. V. (H. Cook), Wolverhampton.
Barker, D. E. (J. W. Fawdry), Portsmouth.
Baron, C. S. (A. M. Fish), London.
Barringer, J. R. (G. N. Hunter), Leeds.
Baskin, R. (A. A. B. Yeatman), London.
Bates, J. (Junr.) (L. C. Williams), Manchester.
Baxter, J. C. (H. B. Phillips), Abergavenny.
Beckley, J. H. (H. R. Powell), Brierley Hill.
Beirne, J. (F. E. Francis), Leamington Spa.
Bell, G. C. (J. B. S. Marsh), Loughborough.
Bendall, D. G. (R. L. Houghton), London.
Bennett, J. (W. E. Little), Ross-on-Wye.
Berry, L. D. (Sir C. J. Pain), Nottingham.
Berryman, B. A. C. (H. J. Impey), Oxford.
Birks, R. V. (H. V. Clayton), Manchester.
Blackwell, D. B. (A. C. Heyward), London.
Blain, F. K. (C. B. Sebire), London.
Blampied, P. G. (F. T. Snow), London.
Bloor, W. R. (R. Grimley), Nottingham.
Bose, A. K. (L. W. Madge), Croydon.
Bottomley, W. L. (S. M. Caldwell), Liverpool.
Boxall, G. G. (H. J. Wells), London.
Bradley, D. A. W. (C. W. Braddy), London.
Briggs, G. T. (A. L. Barnett), Bristol.
Brocklehurst, G. R. (B. Kiernan), Manchester.
Brocksom, M. W. (F. O. M. Smith), London.

Brogden, J. P. N. (H. H. Wheatley), Hull.
Brook, A. E. (L. R. Glass), Bradford.
Brooman, J. C. (E. E. Spicer), London. (*'Plender' Prize for the English Law (Part I) Paper.*)
Brown, A. (J. Taylor), Manchester.
Brown, C. G. (H. P. Mounsey), Liverpool.
Brown, D. C. H. (D. V. House), London.
Brown, K. J. (F. J. Frodsham), Liverpool.
Brown, K. V. (L. W. Underwood), Nottingham.
Brown, L. C. J. (G. Brown), London.
Brown, P. D. (formerly with F. J. Sully, deceased), Weston-super-Mare.
Bryan, J. C. (E. D. Robinson), Blackpool.
Bryant, A. H. (I. H. Howard), Bristol.
Bullworthy, C. F. (J. W. Perman), London.
Bunny, D. C. (J. A. Nicholson), London.
Burton, E. J. (F. E. Rowland), London.
Butt, H. A. (E. A. Savage), Bristol.
Buzzard, F. (K. J. Lunnon), High Wycombe.

Cameron, E. M. (K. G. Shuttleworth), Sheffield.
Campbell, I. F. (G. B. Robins), Hull.
Cant, G. F. (S. Edgcumbe), Plymouth.
Cardno, J. F. (formerly with Sir L. J. Coates, deceased), Leeds.
Cassera, J. (J. [illegible] Corbett), London.
Cayless, B. L. (formerly with W. J. Watt, deceased), London.
Chanter, D. W. (N. L. Denning), Bristol.
Chilvers, D. R. (T. H. M. Baird), London.
Church, D. E. (K. V. C. Ridley), London.
Cibulia, J. A. (G. Weil), London.
Clark, A. E. (E. Clark), London.
Clarke, H. R. (G. R. Appleyard), London.
Clarke, J. G. (L. J. Sparshott), Birmingham.
Clarke, J. T. (R. G. C. Horton), London.
Clarkson, J. N. (A. M. Bentley), Bradford.
Clarkson Webb, M. R. (E. R. Hogg), London.
Coakeley, B. M. (B. A. Coakeley), London.
Cohen, A. S. (H. Norman), London.
Coldicott, H. B. (E. Lucas), Bedford.
Cole, A. W. (E. J. Driscoll), London.
Collins, F. (R. G. Davey), London.
*Collis, F. (R. Kandler), London.
Colliver, H. H. (P. M. Hull), St Ives, Cornwall.
Cook, R. F. (L. H. Andrews), Horsham.
Cooper, A. B. (A. B. Sandal), Wisbech.
Cooper, R. D. (R. C. Taylor), London.
Cope, A. H. (F. G. Evans), London.
Coplowe, E. (M. A. Hyams), London.
Corcoran, H. (E. E. P. Maltby), London.
Cornish, P. J. J. (A. Sadie), London.
Cottam, A. G. J. (H. Hey), Manchester.
Couchman, C. (C. Allen), London.
Couldery, F. A. J. (C. R. P. Goodwin), Brighton. (*'Plender' Prize for the General Financial Knowledge and Cost Accounting Paper.*)

* See also Certificates of Merit above.

Cowen, J. N. (J. Lamb), Newcastle upon Tyne.
Cowey, S. J. (formerly with L. Milburn, deceased), Sunderland.
Cox, J. H. (E. J. Garner), Nuneaton.
Crew, S. A. (C. W. T. Fairhead), London.
Cripps, J. W. (T. T. Hardwick), London.
Crossland, D. C. (R. G. Beard), Sheffield.
Cull, W. C. (W. A. Roberts), Southampton. (*'Frederick Whinney' Prize and the 'Plender' Prize for the Advanced Accounting (Part I) Paper.*)
Cullen, W. (Sir N. E. Waterhouse), London.
Curtis, R. C. (S. J. Lambert), London.

Dansey, C. H. R. (A. E. Perkins), Bristol.
Darley, B. W. (L. Etling), Sheffield.
Davis, R. McA. (R. E. Edwards), Liverpool.
Davis, V. E. (Sir H. G. Howitt), London.
Dawson, J. V. (R. A. Boughton), London.
Dawson, T. (G. F. Shaw), Huddersfield.
Dayton, P. M. (L. M Turnbull), London.
Dean, G. M. (R. W. Gorman), London.
de Angeli, F. (R. R. Coomber), London.
Dear, C. H. (R. S. Paterson), London.
Deitchman, I. J. (H. O. Raphael), London.
Delderfield, R. C. (R. E. Reynolds), London.
Dennis, G. A. (A. E. Campbell), Manchester.
Dermott, A. C. (C. S. Polkinghorne), Chelmsford.
Devey, G. R. (A. Pennington), London.
Dickinson, D. J. (J. M. Howard), London.
Dixon, A. (S. Johnston), Manchester.
Donaldson, S. G. (W. Walker), Leeds.
Donnelly, A. E. (C. J. H. Jones), Portsmouth.
Donovan, J. D. (H. Evans), London.
Down, D. H. A. (H. E. Down), London.
Downard, J. G. (W. G. M. Jackson), London.
Downie, A. F. (T. R. Cubitt), London.
Downing, A. G. (R. Plummer), London.
Duchezeau, F. A. (J. Mayhew-Sanders), London.
Dunford, J. B. (W. H. Hutchinson), Newcastle upon Tyne.
Durgan, D. G. (J. C. Sheldrake), Chelmsford.
Durrant, O. V. (C. W. Howard), Norwich.
Duxbury, R. A. (D. Battersby), Manchester.
Dykes, G. K. (A. G. A Rainey), London.

Eady, P. D. (C. H. Silk), Stourport-on-Severn.
Eastwood, N. (J. Black), Chesterfield.
Eaton, R. G. (C. P. Twemlow), Crewe.
England, N. C. (H. J. Patience), London.
Escolme, V. (R. A. Maude), Leeds.
Evans, J. L. (B. E. Brown), Cardiff.

Fawkner, I. W. (C. O. Skey), London.
Fischer, J. E. (J. F. Moore), Liverpool.
Fisher, A. D. (J. S. Pollard), London.
Fisher, N. W. (F. W. Knowles), Cleveleys.
Fletcher, J. (J. W. Kneeshaw), Burnley.
Forrester, J. D. (J. C. Billingham), London.
Forster, C. (H. Berry), Grimsby.
Foster, F. R. (J. W. Bell), London.
Fraser, E. M. (C. S. S. Cowper), Newbury.
Fuller, K. J. (H. Baker), London.
Furness, G. H. (S. A. Middleton), Newcastle upon Tyne.
Furse, N. W. (E. T. Thurlow), Guildford.

Gale, H. W. (J. C. Benson), Newcastle upon Tyne.
Gamble, J. R. (H. Riley) Halifax.
Garwood, R. O. (G. E. A. Bendall), Birmingham.
Gaskell, J. H. E. (T. N. Foster), Preston.
Gaskill, J. B. (C. E. W. Lavender), Nottingham.
Gass, C. M. (H. S. G. Isitt), London.
Geard, R. A. (F. R. Strover), London.
Gentle, G. H. (S. McCombie), Hitchin.
Giles, D. S. (L. M. Keen), Southend-on-Sea.
Gillman, G. R. (H. G. King), London.
Girling, T. F. P. (H. D. Bessemer), London.
Gladders, B. D. (F. H. A. Gittins), Dudley.
Glissan, R. J. (A. L. Wheatcroft), Birmingham.
Godfrey, P. W. (W. B. Tatlow), Llandudno.
Goldwater, S. (A. Goodman), London.
Goodchild, G. E. (F. Goodchild), Ipswich.
Gorard, A. J. (J. H. L. Davies), London.
Graham, K. M. (H. J. Rigg), Carlisle.
Grainge, A. (F. H. Duckett), Leeds.
Grant, P. L. F. (M. T. Kendrick), Leeds.
Green, E. A. (G. H. Cann), London.
Greenhalgh, D. (J. G. Holcroft), Bacup.
Greenwood, (Miss) V. D. (B. Asquith), Leeds.

Gregg, A. (W. Wetton), Manchester.
Grey, E. P. (G. B. Judd), London.
Grey, J. (C. H. Arkley), North Shields.
Griffiths, A. F. (W. A. Pepper), London.
Griffiths, I. C. (S. J. Hale), Manchester.
Grimshaw, N. V. (formerly with A. McCarmick, deceased), Leeds.
Grinham, A. J. (P. P. Richards), Bristol.
Groome, D. M. (W. N. Chick), Nottingham.
Guha, T. K. (B. Susman), London.
Gwyther, H. M. (B. Keohane), Newport, Mon.

Hackett, D. M. M. (B. M. Till), London.
Hamilton, P. H. C. (G. D. F. Dillon), London.
Hammerton, R. L. (P. Russell), Leicester.
Handley, J. (J. S. Brearley), Halifax.
*Hann, H. E. (F. H. Cropp), London.
Hardy, R. C. (J. Maxwell), Manchester.
Hare, J. D. P. (A. E. Bayliss), London.
Harris, O. B. (D. A. Clarke), London.
Harris, R. L. (W. R. Doherty), Birmingham.
Harrison, H. (L. Nicholls), London.
Harrison, T. F. (A. Hirst), Blackburn.
Hartley, B. (D. H. Harker), London.
Harvey, C. V. (R. C. Deith), London.
Harvey-Barnes, J. E. (H. R. Sewell), Birmingham. (*'West' Prize.*)
Hawkins, D. E. C. (J. A. Hill, Junr.), London.
Hayes, T. (C. D. Bolsover), Sheffield.
Heald, J. C. (G. B. Stam), Liverpool.
Healey, B. G. (L. M. Hall), Manchester.
Heckford, G. B. (W. F. Whiting), Wisbech.
Hemmings, S. J. (G. T. Hills), London.
Hemsley, B. L. (J. A. Bodoano), London.
Henley, A. J. (J. C. Hickmore), London.
Hennell, B. MacD. (formerly with S. Allport, deceased), London.
Henzell-Thomas, P. (G. T. Hills), London.
Heywood, T. E. (W. E. Pyne), Manchester.
Higinbotham, J. A. (A. I. Todman), London.
Hillier, L. C. (R. M. Ealand), Bath.
Hindle, D. R. (N. W. Wild), London.
Hindle, T. W. (L. Hickson), Hull.
Hislop, J. A. (M. H. Hewes), London.
Hitchins, D. F. (H. G. K. Martyn), Truro.
Hockley, P. F. (H. E. Harden), London.
Hodge. (Miss) M. A. T. (C. M. Collings), Bishop's Stortford.
Hodgson, P. R. (H. A. Cox), Croydon.
Hodkin, D. H. (W. B. Holden), London.
Hofmann, K. H. (R. Mould-Graham), Newcastle upon Tyne.
Holford, J. A. (J. S. Lake), London.
Holland, J. C. (C. C. Bullock), Stoke-on-Trent.
Hopton, J. G. W. (E. C. Turner), Birmingham.
Hornung, S. P. (E. T. Granger), Cardiff.
Horsfield, G. H. N. (J. D. Ferguson), London.
Horsley, M. A. (S. V. Lancaster), Birmingham.
Hough, J. A. (E. C. Smith). Manchester.
How, A. T. (T. H. How), London.
Howard, D. L. (C. H. Hogg), Nottingham.
Hubbard, T. F. (H. M. Hawthorne), London.
Hunt, E. J. (G. Talfourd-Cook), Reading.
Huntsman, J. H. (P. J. W. Straus), London.

Jackson, P. P. (C. H. Brand), London.
Jacobs, A. (formerly with R. Aston, deceased), London.
Jenkins, I. D. (H. C. Haines), London.
Jennings, A. R. (W. H. Olivier), London.
Johnson, E. G. F. (R. L. Eke), London.
Johnson, R. G. (H. W. C. Bartlett), London.
Johnson, W. R. (A. O. Dearden), Stockport.
Jones, E. T. (C. A. Watson), Liverpool.
Jones, F. (E. D. Lamb), London.

Keily, J. M. (L. F. McCulloch), Grimsby.
Kemp, F. C. (R. M. Lang), London.
Kendal, M. (A. E. Willmoth), Preston.
Kent, C. F. (R. G. W. Pengelly), Plymouth.
Kerr, R. A. (A. O. John), Swansea.
Keyworth, R. D. (A. S. Kennard), Newton Abbot.
Khan, Y. M. (L. B. Blackler), London.
Kiely, P. G. S. (J. R. Pullan), London.
Kilby, B. (C. K. Jordan), Manchester.
Kirtley, R. W. (W. B. Phillips), Manchester.

Lacy-Scott, D. G. (E. T. Granger), London.
Ladbrook, C. B. V. (E. H. Wingfield), London.
Ladd, K. P. (C. E. G. White), Southend-on-Sea.
Lambert, D. H. (H. T. Lambert), Birmingham.

* See also Certificates of Merit above.

Lambert, W. (F. H. Thornton), Liverpool.
Law, G. (J. B. Hodgkiss), Manchester.
Leach, R. C. (A. Whittaker), Sunderland.
Lee, J. (K. W. Howarth), Halifax.
Lefcovitch, W. (C. McCormick), London.
Lennon, J. W. (E. H. Brandt), London.
Leschen, C. D. (H. A. Astbury), London.
Lewin, D. M. (K. Johnson), Leicester.
Lewis, F. A. (P. G. Walker), Maidstone.
Lindsay, C. P. (Sir N. E. Waterhouse), London.
Lipton, S. (A. W. S. Tabbernor), London.
Little, W. (A. R. Glenton), Newcastle upon Tyne.
Litton, E. G. (J. P. Coatsworth), London.
Lloyd-Owen, P. (C. D. Walker-Arnott), London.
Longcroft, J. G. S. (R. S. Longcroft), London.
Longland, P. W. (H. H. Sheard), Blackpool.
Lowry, F. D. M. (G. Leather), Liverpool.
Lynes, T. A. (H. Sacks), London.

McCarthy, D. H. (G. E. S. Twist), Birmingham.
McKelvey, D. A. (C. Wilson), Ashton-under-Lyne.
Macken, T. (J. G. Younger), South Shields.
McLennan, W. D. (W. S. W. Fone), London.
McNulty, M. J. (C. S. Bishop), Leicester.
Mairs, G. B. (H. B. Bradfield), Nottingham.
Marke, T. M. L. (T. M. Till), London.
Martin, F. T. (E. C. Mercer), Liverpool.
Martin, J. R. C. (E. M. Ormrod), Liverpool.
Mason, A. A. (G. S. Crookes), London.
Massey, E. H. (F. Battersby), Manchester.
Masters, A. S. (R. J. Butterworth), London. (*'Plender' Prize for the Taxation Paper.*)
*Masters, W. F. (G. W. Wilks), London.
Mathias, N. J. (C. C. Clarke), London.
*Mellows, P. J. (C. R. Goulder), London.
Miller, J. R. (R. H. E. Wilkinson), Manchester.
Miller, W. G. (J. J. Smith), Newcastle upon Tyne.
Minards, B. E. (A. L. Peatman), Northampton.
Mobbs, G. E. (R. A. Palmer), Northampton.
Monkhouse, J. F. (A. D. Prince), London.
Monro, W. S. G. (A. R. Brackenridge), London.
Moon, M. S. (S. Woodyer), Liverpool.
Moore, A. D. (J. P. Moore), Bury. (*'Roger N. Carter' Prize.*)
Moore, G. W. L. (S. B. McQueen), Liverpool.
Morgan, D. J. W. (W. T. Horsfall), London.
Morgan-Grenville, J. R. B. (J. E. Hooper), London.
Morpeth, D. S. (J. M. P. Bishop), London.
Morris, B. V. (M. Gordon), London.
Morris, J. (A. Collins), Bournemouth.
Morshead, I. F. T. (K. V. C. Ridley), London.
Mullarkey, T. S. (L. Bull), Rochester.
Mullins, M. E. (C. H. C. Mabey), London.
Murray, J. R. (W. A. Shapland), London.
Murray, (Miss) K. D. (F. H. Carter), London.

Naganathan, M. (C. F. Bird), London.
Nash, N. C. R. (H. H. Mason), London.
Newman, H. E. (A. Fletcher), Salisbury.
Newman, P. S. (L. C. Winterton), London.
Nichols, J. D. F. (W. T. Williams), London.
Noakes, P. E. (A. A. Johnstone), Ellesmere Port.
Norris, I. P. (C. J. M. Bennett), London.
Nye, E. A. W. (W. G. Campbell), London.

Ogden, W. R. C. (R. B. Ogden), London.
Oliver, F. (C. F. Gothard), Burton-on-Trent.
Ollis, N. E. (T. J. Theobald), London.

Pain, C. A. S. (W. G. Campbell), London.
Palmer, P. H. (H. F. Palmer), Nottingham.
Palmer, V. D. (R. R. Webb), London.
Panter, K. C. S. (C. T. Boakes), London.
Parker, D. (A. D. Wykes), London.
Parker, R. E. A. (J. C. Hardy), London.
Parlett, S. C. (T. H. Nicholson), London.
Parrack, G. B. (T. B. Robson), London.
Parslow, F. C. (F. M. Lowe), London.
Partridge, (Miss) I. H. (F. W. Partridge), Reading.
Patel, R. M. (W. H. Johnstone), London.
Pattison, G. C. (D. J. Duthie), London.
Pedlow, E. W. (C. Murray), London.
Pedlow, M. H. (R. D. Henderson), London.
Pennock, E. J. (J. C. Luckin), Chelmsford.
Percival, A. T. (L. W. Robson), London.
Peterman, L. (H. D. Bradley), London.
Phillipson, J. J. (R. A. Stevens), Wolverhampton.
Pickett, M. F. (F. C. Gibbons), Hastings.
Pike, B. C. (F. B. Proctor), London.
Pike, L. I. (H. F. Mathews), London.
Pitts, J. M. (C. E. Hampton), Birmingham.
Pollard, P. R. (L. V. Russell), London.
Pont, J. (C. E. Lester), Tunbridge Wells.
Post, J. A. N. (F. L. Webb), London.
Potts, J. R. (R. Lofthouse), Sunderland.
Pratt, G. H. (J. F. W. Robinson), Workington.
Price, J. G. (G. F. Pykett), London.
Price, R. M. (M. Bound), London.
Price, W. C. (A. Whitaker), Gloucester.
Purdy, J. M. (L. Bull), Rochester.

Rankin, W. (W. A. Eilbeck), Liverpool.
Reay, W. R. (R. K. Dotchin), Newcastle upon Tyne.
Redfern, J. R. (W. E. Broadbent), Ashton-under-Lyne.
Reed, B. C. (F. E. Corbin), London.
Reid, D. (W. H. Parton), London.
Rendell, P. F. (A. C. C. Oddie), Bristol.
Resting, L. O. (W. G. Miles), Swansea.
Rhodes, E. H. (N. W. Peeling), Manchester.
Richer, C. M. (P. F. Friend-James), Brighton.
Roberts, D. B. (G. M. W. West), Liverpool.
Robertson, T. (J. H. Waugh), Newcastle upon Tyne.
Robinson, P. R. (W. E. Ogden), London.
Roffe, R. J. C. (F. S. Bray), London.
Roper, D. C. (O. W. Thompson), Birmingham.
Ross, H. R. (H. C. Medlam), London.
Rowlands, H. (T. W. Pickard), Cardiff.
Rowley, G. W. (C. E. Corney), Birmingham.
Rudland, D. M. (H. H. Gittoes), Birmingham.
Rumbles, G. (H. P. Board), Cambridge.
Russell, P. P. (N. J. Dodd), London.
Ryland, A. J. S. (M. C. Rhodes), Cirencester.

Sadler, J. D. (J. H. Noble), Macclesfield.
Sadler, T. M. (N. Dunn), Newcastle upon Tyne.
Salmon, J. J. W. (D. B. Buick), London.
Samson, V. H. (B. G. Counsell, Junr.), Cleveleys.
Sassoon, I. (S. Brief), London.
Saunders, P. J. (A. E. Whitcomb), Luton.
Sawtell, I. D. W. (D. E. Darker), London.
Say, P. R. (W. Young), London.
Scanlon, M. R. (B. J. Ketchlee), London.
Schiff, S. A. (C. E. Thurlow), London.
Scott, R. C. N. (J. E. MacSwiney), London.
Sedcole, C. F. (F. Sedcole), London.
Selier, J. B. (H. Goodier), London.
Selwyn, S. C. (G. Sorene), London.
Sen-Gupta, R. N. (D. F. D. Cartwright), London.
Shackleford, G. C. F. (E. W. P. Broad), Tunbridge Wells.
Shaddock, R. F. (N. V. Redfern), Gillingham.
Shaw, G. E. (A. Shaw), Dewsbury.
Shedd, J. W. (C. S. Polkinghorne), Chelmsford.
Sheeter, L. (M. Fenton), London.
Shelley, R. C. (L. Baker), London.
Shepherd, R. J. (G. C. Toulmin), Brighton.
Shroff, M. R. (M. Striker), London.
Simmons, L. D. (W. L. Norman), London.
Simnett, P. R. (L. R. Treen), London.
Singh, K. A. (B. Susman), London.
Skeffington, J. C. (G. R. Lowe), London.
Skelton, K. G. (J. C. Sheldrake), Chelmsford.
Slee, A. W. (H. R. Davison), Barnstaple.
Smale, D. H. (K. S. Peirson), Coventry.
Small, D. H. (J. L. Mawhood), London.
Smith, A. T. (C. L. Walker), London.
Smith, D. L. (L. Smith), Nottingham.
Smith, D. R. (R. C. Larking), Norwich.
Smith, G. R. (Sir A. R. Smith), London.
Smith, J. A. (T. K. Allan), Newcastle upon Tyne.
Smith, J. D. (W. B. Douthwaite), Sheffield.
Smith, J. E. (C. Stevens), London.
Smith, J. H. (C. H. Arkley), North Shields.
Smith, K. J. (D. Lewis), London.
Smith, P. W. (E. K. F. Swayne), Godalming.
Smith, R. (F. J. Fullerton), Leeds.
Smith, T. L. (J. M. Hough), Newcastle upon Tyne.
Spencer, A. M. (E. Macartney), Newcastle upon Tyne.
Spencer, G. E. (A. I. Wyborn), London.
Spooner, R. (L. Stowell), Manchester.
Stanton, W. (H. Arbeid), London.
Steed, M. N. (E. D. Mole), Taunton.
Steel, D. R. B. (H. P. Lawrence), Bristol.
Stephenson, J. R. (W. Pomfret), Preston.

* See also Certificates of Merit above.

Stevens, J. O. (F. E. Hawkes), Luton.
Stewart, D. (D. C. Wilson), London.
Stone, H. (G. J. D. Smith), Plymouth.
Storrey, P. A. (A. L. Morell), Nottingham.
Straughan, J. N. (A. Rainbow), Newcastle upon Tyne.
Strivens, D. J. (J. R. Moyle), Ipswich.
Sturgess, D. H. (B. S. Lumsden), London.
Sykes, G. B. (H. L. Simpson), Huddersfield.
Sykes, M. A. (R. L. M. Wood), Huddersfield.

Tatlow, T. O. (E. Johnson), Llandudno.
Tattersall, J. R. (F. C. S. London), London.
Taylor, B. M. (A. W. Dalling), Brighton.
Taylor, I. (H. Nock), Dudley.
Taylor, J. M. (C. Wykes), Leicester.
Teakle, B. J. (S. Jackson), London.
Templeman, C. L. (H. E. W. Parker), Grimsby.
Tenison-Collins, A. E. (H. M. Hawthorne), London.
Teraoka, T. W. M. (L. Irvine), London.
Terrett, G. A. (E. C. Lancey), Worcester.
Terry, G. G. (S. D. Hul), Stockport.
Thoburn, F. R. (G. F. K. Morgan), Cardiff.
Thomas, M. G. (A. H. Lawrence), Cardiff.
Thomas, P. (J. H. Maunder), Dorchester.
Thompson, C. P. (R. W. Rodwell), Leicester.
Thompson, O. H. (J. V. F. Crowther), London.
Thursfield, W. J. (J. A. Evans), Birmingham.
Thwaites, W. A. (L. Barber), London.
Timmins, N. E. (N. Alton), Leicester.
Tucker, R. H. T. (W. E. Dewdney), Bristol.

Urwin, P. M. (G. R. Postlethwaite), Doncaster.

Wadie, H. (R. W. West), London.
Wagstaffe, I. (J. W. Austin), Biggleswade.
Walker, A. (J. E. Woolton), Wolverhampton.
Walker, D. N. (G. F. R. Baguley), London.
Walker, P. V. (J. Newman), London.
Walker, T. C. (C. J. M. Bennett), London.
Wallace, R. (J. Sharp), Carlisle.
Walsh, S. T. (R. Dixon), Taunton.
Walton, J. A. (F. Broadie), Manchester.
Warburton, M. P. M. (Sir H. M. Barton), London.
Ward, N. E. M. (S. A. Letts), London.
Watts, E. (K. Johnson), Leicester.
Weaks, J. M. (D. T. Owen), Carmarthen.
Webster, B. W. B. (J. H. Alexander), Leeds.
Webster, C. (W. H. Stone), Manchester.
Webster, G. D. (F. G. Lee), Ilkeston.
Webster, H. (A. J. Kirman), Grimsby.
Webster, M. G. (R. G. Leach), London.
Weston, W. G. (F. Chadwick), Runcorn.
Whitaker, A. A. (L. W. Farrow), London.
White, G. C. H. (F. J. Thompson), Exeter.
White, S. L. (W. H. H. Hutchinson), Hull.
Whiting, A. J. (F. G. A. Cooper), Wisbech.
Wicker, K. J. S. (V. C. Manolescue), Hounslow.
Wilkes, R. G. (R. D. Lea), Leicester.
Wilkinson, P. W. (W. A. Fitch), London.
Willcock, J. (C. Green), Manchester.
Williams, E. (R. Allwood), Chester.
Williams, J. H. (E. S. Ball), Liverpool.
Williams, J. M. H. (W. Whinnerah), Liverpool.
Wilmot, B. H. (A. H. Smalley), Coventry.
Wilson, A. (R. Walton), Leeds.
Wilson, A. L. (W. Tooth), Coventry.
Winchcombe, V. M. (W. Hepburn), London.
Withers, E. (F. T. Barnes), London.
Wood, E. D. (A. F. Christlieb), London.
Wood, D. (A. Ball), Manchester.
Wood, D. J. C. (R. F. Bell), London.
Wood, M. W. (G. F. Middle), Stourbridge.
Wood, P. J. (C. H. Dew), Leamington.
Woolfenden, E. (J. M. Harvey), Liverpool.
Wright, R. G. (A. J. Phelan), Manchester.
Wynne, D. P. (W. W. Grace), Bristol.

Yates, C. (H. S. Wilson), Manchester.
Young, J. M. (G. G. Youngs), Norwich.

504 Candidates passed. ***552 Candidates failed.***

INTERMEDIATE EXAMINATION

Held on November 20th, 21st and 22nd, 1951

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize (with one other) and the 'Plender' Prize for the Taxation and Cost Accounting paper
Carter, George (B. Asquith), Leeds.

Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prizes for the General Commercial Knowledge and the Auditing papers
Sherman, Hyman Arnold (L. W. Bingham), London.

Third Certificate of Merit
Bennett, David Leonard (F. H. Richardson), Derby.

Fourth Certificate of Merit
Barney, John Milward (O. S. Francis), Reading.
Nuttall, John Michael (G. N. Ward), Keswick.

Sixth Certificate of Merit
Fewlass, James William Barwick (C. M. Strachan), Hull.

Seventh Certificate of Merit and the 'Plender' Prize for the Book-keeping and Accounts (Limited Companies) paper
Darbyshire, Colin George (F. C. Darwell), Blackpool.

Eighth Certificate of Merit and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) paper
Brooks, Richard Simon (A. C. C. Oddie), Bristol.

Eighth Certificate of Merit
de Selincourt, Derek Robin (L. C. Beecroft), London.
Manning, William George Dowers (D. H. Collier), London.

Eleventh Certificate of Merit, the 'Frederick Whinney' Prize (with one other) and the 'West' Prize
Riddell, James Renwick (R. H. Hilton-Jones), Shrewsbury.

Twelfth Certificate of Merit
Secrett, Kenneth Edward (R. W. Young), London.

Thirteenth Certificate of Merit
Cutts, James Arthur (A. G. B. Drabble), London.

Fourteenth Certificate of Merit
Johnson, George Thomas (A. H. Covington), London.
Marment, Alan (J. G. Imray), London.
Marshall, Brian (E. J. Fawn), York.

Full List of Names of Successful Candidates
(in alphabetical order)

Ableson, B. J. (R. J. Goodwin), London.
Alberge, M. E. (R. C. Charlton), London.
Allen, B. L. (S. Croft), London.
Allen, J. B. (S. L. Buckland), Swansea.
Allen, R. N. (C. L. Wykes), Leicester.
Amatt, C. H. (F. B. Peach), Burton-on-Trent.
Appleton, A. H. (J. F. Barton), Manchester.
Arkinstall, D. E. (H. B. Keeping), London.

Bagshawe, N. T. (H. W. Sydenham), London.
Ball, (Miss) U. P. J. (A. D. Walker), Liverpool.
Barker, T. (P. A. Lloyd), Liverpool.
Barlow, D. J. (A. H. Penney), London.
Barnett, A. R. (B. Barnett), Mansfield.
*Barney, J. M. (O. S. Francis), Reading.
Barrett, G. B. (R. H. Stevens), London.
Barrett, H. (L. C. W. Phillips), Oxford.
Barritt, M. (E. W. Hillyard), London.
Barritt, W. M. (R. H. Hilton-Jones), Shrewsbury.
Barrow, W. J. (J. K. Carpenter), London.
Bartfield, W. (W. W. Powell), Leeds.
Bartlett, D. A. (E. D. Mole), Taunton.
Baxter, F. G. (G. A. Raines), London.
*Bennett, D. L. (F. H. Richardson), Derby.
Benson, R. S. (E. Winstanley), Nottingham.
Bethell, J. S. (W. G. Baxter), Sheffield.
Beverley, G. (G. C. Jarvis), London.
Bibb, B. W. (H. M. Pepper), Walsall.
Binns, E. (D. K. D. Shaw), Manchester.
Black, J. M. (B. O'D. Manning), London.
Blackburn, P. D. (C. G. Wareham), Oxford.
Blundell, E. T. (B. A. S. Soole), London.
Boon, A. B. (B. F. Newill), Leicester.
Boucher, C. S. (C. E. West), London.
Bowron, H. C. (D. de G. Walford), Stockton-on-Tees.
Brahams, A. W. H. (E. M. Bowden), London.
Bridgford, A. M. R. (J. C. Burgess), Manchester.
*Brooks, R. S. (A. C. C. Oddie), Bristol.
Broughton, G. R. (S. V. Austin), London.
Brown, R. A. (A. L. Goodman), Plymouth.
Buckley, D. (L. Buckley), Manchester.
Burman, C. (A. I. Miller), London.
Butcher, K. M. (A. P. Turner), Loughborough.
Butcher, (Miss) T. J. (C. M. Jackson), London.
Butler, D. (G. A. Clifford), Birmingham.
Button, W. N. (J. I. Calcott), Leamington Spa.
Buxton, T. G. (H. F. Mathews), London.

Caine, P. (A. Smith), Manchester.
Calver-Jones, J. (A. P. Hughes), London.
Camamile, G. H. (J. Camamile), Lincoln.
Campbell, A. G. (R. F. W. Sheraton), Brighton.
Campbell, I. D. R. (A. G. B. Burney), London.
Caplan, J. (R. W. Leigh), London.
Carnell, J. B. (F. W. Chapman), Nottingham.
*Carter, G. (B. Asquith), Leeds.
Chipps, F. C. (T. B. Stuttard), Burnley.
Chivers, P. C. (J. C. Howard), London.
Clarke, A. E. (C. W. Bingham), Nottingham.
Clarke, C. H. (C. A. Prophet), Harpenden.
Clay, D. N. (A. S. F. Oliver), Hull.
Clayton, J. A. (J. Clayton), Manchester.
Cleaver, J. E. R. (P. F. Carpenter), London.
Climpson, J. A. E. (F. C. Horne), Haddenham.
Clinton, W. M. (C. Brassington), Wolverhampton.
Coates, J. J. D. (W. A. Wheatcroft), Sheffield.
Cole, A. C. J. D. (M. C. Rhodes), Cirencester.
Collier, R. S. (R. L. Powell), Manchester.
Collighan, N. (R. O. McIlwrick), Manchester.
Conneely, B. (C. J. C. Smith), Northwich.
Conway, V. S. (R. A. C. Mordant), London.
Cook, R. C. (G. R. Smith), Grimsby.
Cooper, S. E. (E. M. Smith), Baldock.
Cotton, K. C. A. (W. M. H. Nash), Weston-super-Mare.
Coward, J. H. A. (A. J. R. Coward), London.
Cumberbatch, I. (H. Denner), Blackpool.
*Cutts, J. A. (A. G. B. Drabble), London.

Dalglish, M. de L. (W. R. Tomkinson), London.
*Darbyshire, C. G. (F. C. Darwell), Blackpool.
Davis, D. P. (G. R. Dawes), Birmingham.
Dee, J. (L. R. Elcombe), London.
de Kersaint Giraudeau, P. C. G. (G. H. Cann), London.
Denney, G. H. (C. E. Hall), London.
*de Selincourt, D. R. (L. C. Beecroft), London.
Dews, G. P. (G. F. Saunders), Liverpool.
Dhar, I. (C. C. Clarke), London.
Dilnutt, D. C. (D. Lorimer), Southsea.
Dollimore, H. (A. N. Chapman), London.
Dooley, D. (F. W. Barnes), London.
Douglas, J. R. (S. M. Pettitt), London.
Douglas-Withers, D. B. E. (A. E. Downing), London.
Dovey, A. R. (S. W. Percival), London.
Druce, S. (M. Lytton), London.
Duffus, R. A. (A. G. L. Puckle), London.

Eagle, J. C. (F. K. Wilby), Leicester.
Easlick, B. D. (R. S. Frost), Taunton.
Eckersley, C. C. R. (A. Rigby), Manchester.
Edgington, G. T. (H. Tonge), Oxford.
Edinoff, H. (P. P. Sargant), London.
Edwards, K. H. (B. M. Hanmer), Liverpool.
Egerton, D. B. (E. G. Tilley), London.
Elgin, (Miss) R. (R. E. Carey), London.
Ellis, W. E. G. (C. J. Lucking), Long Eaton.
Ellison, J. S. (W. Lodge), Liverpool.
Ethell, B. D. (A. G. A. Rainey), London.
Everitt, (Miss) E. B. (L. V. Rainey), London.
Ezzat, A. F. (E. C. Griffith), Watford.

Falck, J. D. (George P. Norton), Huddersfield.
Farmer, H. T. (D. A. J. Draper), London.
Faucheux, A. A. (L. H. Ennis), London.
Faull, R. D. (R. L. Owen), Bristol.
Fay, B. A. (G. H. Murray), Manchester.
Fay, M. A. (J. Mayhew-Sanders), London.
Felstead, E. (F. Neatham), Warrington.
Felton, J. F. (F. L. Felton), Birmingham.
*Fewlass, J. W. B. (C. M. Strachan), Hull.
Flanders, J. B. (A. T. Mabe), Derby.
Fletcher, J. L. (W. Day, Junr.), Maidstone.
Frank, R. J. (R. Frank), Doncaster.
Freeman, D. W. (E. J. Davis), London.
Frere, L. P. D. (P. L. Neild), London.
Fry, A. E. (S. C. Parker), Wellington, Salop.

Gammon, S. J. (A. L. Price), Manchester.
Garner, (Mrs) M. L. K. (S. D. Jacob), Birmingham.
Gelling, R. R. (A. P. Roberts), Birmingham.
Gibson, G. H. (B. G. Davison), Leamington Spa.
Gill, C. B. H. (H. C. Gill), Manchester.
Gilmour, W. A. (H. F. Baker), Northampton.
Gilronan, D. R. (H. M. Sayers), London.
Gledhill, J. (E. R. C. Kerr), Halifax.
Glentworth, D. S. (H. B. W. Parker), Grimsby.
Goble, B. A. (D. H. Collier), London.
Goldblatt, H. (L. Parker), London.
Goode, A. (J. Ellison), Birmingham.
Gradidge, S. H. G. (C. A. Prophet), Harpenden.
Graham, T. (S. Johnson), Leicester.
Gransbury, P. A. (E. R. H. Scott), London.
Grant, N. A. (J. F. Warren), London.
Grant, R. J. P. (J. A. Hill), London.
Gray, A. J. (G. T. E. Chamberlain), Leicester.
Gray, D. R. (C. E. Peers), London.
Griffiths, R. F. (C. E. Garratt), Birmingham.

Hailstone, B. C. (H. D. Radford), Birmingham.
Hale, J. A. (A. L. Bersey), London.
Hall, M. W. (R. P. Winter), Newcastle upon Tyne.
Hammond, K. W. (W. F. Hague), London.
Haqqani, S. A. H. (H. W. Franklin), London.
Harper, L. G. (W. E. Ratnett), Reading.
Harpin, S. B. (W. G. Fox), Leicester.
Hartland, A. W. (H. G. Pinner), Smethwick.
Harvey, J. L. (F. J. B. Gardner), London.
Hays, D. (G. F. Davies), London.
Hennessy, B. J. W. R. (A. D. McLaren), Leeds.
Henning, C. B. (R. W. Mason), London.
Heslop, J. R. (W. S. Heslop), Newcastle upon Tyne.
Heslop, W. J. M. (J. R. Heslop), Newcastle upon Tyne.
Hicks, L. G. (J. H. Senior), London.
Hillyer, J. S. (C. D. W. Arnott), London.
Hinton, C. R. H. (F. W. T. Heathcote), Birmingham.
Hobson, O. W. (G. A. J. Morris), London.
Hodder, G. J. W. (B. C. Muggleton), Birmingham.

* See also Certificates of Merit above.

Holmes, P. D. (H. E. Halliday), Newport, Mon.
Hooke, K. E. (H. Lemmon), King's Lynn.
Hopper, R. C. F. (G. D. Lane), Folkestone.
Horsell, R. I. (H. R. Tebb), Leeds.
Hounsell, N. (C. H. Thomas), Bridport.
Housden, P. J. (A. E. Burton), London.
Howard, E. A. (C. W. Howard), Norwich.
Howe, G. J. (J. F. S. Rogers), London.
Howell, R. V. (J. W. Wakefield), Birmingham.
Howick, J. A. (C. J. K. Boyce), Guildford.
Hughes, P. J. (E. K. Wright), London.
Hutton, P. J. (E. Corcoran), Manchester.

Irsai, Z. (K. L. Collin), Sheffield.

Jacobs, R. A. (G. C. Ehlers), Bristol.
Jacques, D. D. (F. J. Ecclestone), London.
Jaffe, I. P. (J. Ross), Manchester.
Jakob, L. H. (H. E. Gower), London.
James, D. J. (P. L. Eynon), London.
Jee, J. F. (H. Stones), Hinckley.
Johnson, C. W. R. (J. McGregor), Manchester.
*Johnson, G. T. (A. H. Covington), London.
Johnson, R. W. (K. Jackson), Harrow.
Joiner, J. H. (L. A. Baddeley), London.
Jones, E. W. (B. L. Barber), London.
Jones, P. L. (F. J. Braybrooks), London.
Judah, N. L. (P. S. Hawkings), London.

Keeler, A. E. (W. A. Wheatcroft), Sheffield.
Keeling, M. E. A. (F. W. Charles), London.
Keogh, J. F. (H. A. Hawes), London.
Killingley, J. H. (C. N. Smellie), London.
Knight, D. G. B. (E. T. Granger), London.

Laidler, W. (E. C. Howie), Newcastle upon Tyne.
Lavender, J. C. (K. A. Buxton), Nottingham.
Lawes, (Miss) P. T. (M. E. Pearce), Portsmouth.
Lean, M. B. (G. O. Redfearn), Penzance.
Leigh, J. M. (C. McCabe) Maidstone.
Leigh, J. S. (J. W. Kneeshaw), Blackpool.
Lenygon, B. N. (J. A. Calverley), London.
Leskin, B. (D. H. Levett), London.
Lindblom, J. E. (G. C. Hollowell), London.
Lobatto, R. (M. C. Holt), London.
Lochhead, A. D. (F. A. Lord), London.
Lovelady, G. J. (J. S. Johnson), Liverpool.
Lucas, J. (J. S. Chalton), Leeds.

McDougall, I. D. (R. E. Jones), Liverpool.
McDowell, J. A. (F. S. Parsons), Croydon.
McGill, J. F. (E. N. G. Joicey-Cecil), London.
McKean, K. (W. J. E. Ringquist), Stockton-on-Tees.
Mackrael, J. A. (B. Green), Fleetwood.
McLaughlin, A. C. (W. R. Doherty), Birmingham.
Maddams, J. M. (H. R. Sewell), Birmingham.
Maeer, G. (C. J. Bailey), Sheffield.
Mallinson, J. (G. A. Bell), Manchester.
Malyon, G. E. (R. H. Jenkins), London.
Manley, P. (L. V. Russell), London.
Manning, C. H. (R. R. N. Nash), London.
*Manning, W. G. D. (D. H. Collier), London.
*Marment, A. (J. G. Imray), London.
Martin, N. (A. V. Hedges), Burnley.
*Marshall, B. (E. J. Fawn), York.
Mellstron, G. F. C. (C. T. Blackborn), London.
Meredith, G. (J. L. Watchurst), Warrington.
Merton, C. R. (R. Grimble) London.
Mill, R. McL. (C. E. M. Johnson), London.
Miller, L. R. R. (W. G. Payne), London.
Monk, M. M. (D. H. D. Freeman), London.
Moore, A. (W. G. Lewis), Liverpool.
Moppett, J. S. (L. D. Morse), London.
Morris, A. C. (L. F. Jones), Wolverhampton.
Moulds, D. L. (S. P. Smith), Burnley.
Moult, D. (D. Winnett), Manchester.
Mugglestone, G. A. (T. Ireland), Birmingham.
Munn, R. A. (J. Winn), Newcastle upon Tyne.

Napier, K. C. (J. S. F. Hill), Nottingham.
Nelson, I. D. (F. M. Kellett), Newcastle upon Tyne.
Netley, P. G. (D. C. Gould), Reading.
New, F. R. (V. Keen), London.
Nicoll, P. (T. B. Murtland), Leeds.
*Nuttall, J. M. (G. N. Ward), Keswick.

Osindero, E. A. (R. F. Harding), Brighton.

Pacey, K. (E. P. Broome), Nottingham.
Palmer, K. G. S. (C. D. Witton), London.
Paris, G. D. (J. T. Corbett), London.
Parkinson, R. T. (P. T. Jones), Cardiff.
Parr-Head, P. (W. Broad), London.
Parsons, H. J. (W. J. James), Brecon.
Partington, A. (L. D. Harrison), Oldham.
Patel, B. R. (D. F. D. Cartwright), Brighton.
Payne, C. (F. Potts), Wigan.
Payne, J. M. (J. Payne), London.
Perren, A. (E. T. Peckham), London.
Phillips, D. (H. O. Rule), Truro.
Phillips, M. L. (J. B. Rubens), London.
Platt, B. U. (H. Leach), Bolton.
Plumbe, J. M. (R. L. Weavers), London.
Plumbridge, M. J. (N. J. Dodd), London.
Porter, R. H. (H. N. Ballard), London.
Posner, M. (H. H. E. Edwards), London.
Pratt, D. T. (H. W. Ward), Portsmouth.
Prest, J. S. (W. R. T. Whatmore), London.
Pyne, R. P. (V. B. Mitchelmore), West Wickham.

Rappoport, M. (H. Young), London.
Rata, D. H. K. (T. C. Y. Hughes), London.
Reilly, P. L. (R. G. Fox), Southampton.
Reynolds, D. E. (P. G. Gadd), Colwyn Bay.
Rice, C. D. (J. R. C. Weber), Cardiff.
Richardson, J. P. de R. (J. A. Hill, Junr.), London.
*Riddell, J. R. (R. H. Hilton-Jones), Shrewsbury.
Rider, M. G. (A. Henderson), Middlesbrough.
Roberts, N. R. (B. J. Ducker), London.
Roberts, P. J. (F. M. Schofield), Manchester.
Roberts, R. A. L. (J. F. Hudson), London.
Robertson, D. V. (R. G. Carter), London.
Robertson, J. W. (F. Hiscocks), Liverpool.
Robinson, A. S. (A. L. Gibson), Bradford.
Robinson, J. P. (E. T. Coulson), Scarborough.
Roe, S. (R. R. Langley), Nelson.
Roffey, B. (W. Pomfret), Preston.
Rogers, D. C. (E. G. J. W. Kent), Colchester.
Rogers, R. A. (H. W. Fisher), London.
Rogers, V. J. (T. G. Davis), Hillingdon.
Rose, C. L. (S. T. Evans), Cardiff.
Rosenthal, R. (S. Trent), London.
Rowbotham, B. W. (R. H. Cave), London.
Rowes, P. G. (E. Lord), Birmingham.
Ruddle, A. F. H. (E. R. Hogg), London.

Sadd, R. L. (E. W. Langford), London.
Salmon, C. B. L. (L. A. Periton), London.
Scattergood, K. B. (G. H. B. Cox), Burton-on-Trent.
Schofield, D. (E. W. Wells), Preston.
*Secrett, K. E. (R. W. Young), London.
Settinayaka, D. R. (H. M. Morison), London.
Severn, C. D. G. (D. H. Whinney), London.
Seymour, G. (A. R. Tyler), East Grinstead.
Shaw, S. S. (G. E. Martindale), London.
Shepherd, G. D. (T. Dowell), Carlisle.
*Sherman, H. A. (L. W. Bingham), London.
Simmons, R. A. (P. H. Martin), London.
Simons, N. D. (L. McGillivray), London.
Simpson, E. M. (J. L. Smith), Market Harborough.
Slaven, J. A. (S. F. Wilson), London.
Sloan, J. S. (H. W. Norman), London.
Smallman, F. R. A. (M. St A. Moore), London.
Smart, C. F. (L. B. Blackler), London.
Smith, H. B. (J. G. Austin), Leicester.
Smith, R. C. (K. A. Buxton), Nottingham.
Smith, W. R. (L. E. Allen), St Albans.
Sopher, R. A. (G. G. Hetherington), London.
Speare, D. F. (H. E. Cooper), Bristol.
Stanford, S. C. (R. G. Main), London.
Sterlin, W. R. (A. E. Bayliss), London.
Stern, H. B. (J. Altman), London.
Stevens, D. G. (J. Taylor), Luton.
Stewart, M. J. (B. D. Beeston), London.
Stone, F. M. T. (A. R. O. Slater), London.
Stratford, V. G. (L. G. Jones), London.
Straw, J. S. (J. S. Paine), London.
Stroud, A. W. (E. G. Evans), London.
Suffell, D. F. (W. N. Dawson), Middlesbrough.
Sutherland, I. D. (K. G. Warriner), Leeds.

* See also Certificates of Merit above.

Swaysland, E. L. C. (E. Boden), Rickmansworth.

Tandy, A. G. (G. D. West), Liverpool.
Teal, F. H. (T. M. Threlfall), Nelson.
Teece, B. C. (P. A. Clark), Gravesend.
Thomas, D. L. G. (D. Ll. Pritchard), Carmarthen.
Thomas, P. S. (L. A. D. Winter), Truro.
Thurgood, D. C. (H. L. Thurgood), London.
Thurling, M. (R. W. Allott), Worksop.
Townend, D. R. (F. S. (Mowforth), Hull.
Trotter, D. R. (A. G. Williams), London.
Tunbridge, F. W. (F. E. Francis), Leamington Spa.
Turner, R. G. (E. D. Taylor), Leeds.
Twogood, D. A. (G. Grayrigge), London.

Valentine, J. B. (G. L. Mitcheson), Manchester.
Vause, A. C. (G. S. Middleton), London.
Venning, B. B. (W. G. Campbell), London.
Vince, P. G. (A. Cowdy), Portsmouth.

Wade-West, J. (J. Holmes), Brighton.
Wadsworth, P. H. (T. R. Bailey), Bradford.
Waite, J. E. (C. U. Peat), London.
Walker, P. J. (C. L. O'Callaghan), Nottingham.
Walton, P. (M. C. Dalgleish), London.
Warner, H. G. (G. Whittaker), Manchester.
Washington, J. C. G. (S. R. Dunwoody), London.
Watkins, A. T. (C. E. M. Johnson), London.
Watson, F. N. (O. Furnival-Jones), London.
Watson, H. S. (W. R. Burrough), London.
Weinberg, Z. (J. Pollard), London.
Weller, R. (S. B. Jackson), Birmingham.
West, B. J. (Sir R. Kettle), London.
West, M. O'B. (J. G. Ash), London.
Weston, D. B. (H. McDonald), Birmingham.
Weston, J. B. (G. Smith), Liverpool.
White, S. J. (D. R. P. Foot), London.
Whitehead, C. B. (F. W. Bright), Newport, I.o.W.
Williams, H. (Junr.) (T. Taylor), Llandudno.
Williamson, A. (W. W. Routledge), Carlisle.
Williamson, J. L. N. (A. F. R. Payne), Stroud.
Williamson, T. H. (R. Phelps), Bristol.
Wimbourne, A. K. J. (H. J. Patience), London.
Withers, H. M. (J. C. Bishop), Hastings.
Wolfenden, (Miss) A. (A. T. Cooper), Bolton.
Wombwell, M. T. (D. Landin), Sheffield.
Woodhouse, C. (C. J. H. Jones), Portsmouth.
Woolcott, J. (G. J. D. Smith), Plymouth.
Woznica, N. (N. M. Cohen), London.
Wren, M. A. (H. E. Hassell), London.

Youngman, D. T. E. (F. C. Gibbons), Hastings. (*'Plender' Prize for the Book-keeping and Accounts (Partnership) Paper.*)

Zamboni, R. F. C. (T. W. Pickard), Cardiff.

368 Candidates passed. ***522 Candidates failed.***

PRELIMINARY EXAMINATION

Held on November 13th, 14th, 15th and 16th, 1951

Full List of Names of Successful Candidates
(in alphabetical order)

Ainslow, J. D. S., Leamington Spa.
Appleby, A. R., York.
Aston, R., Manchester.

Bakerman, W., Liverpool.
Barker, C. H., Birmingham.
Barton, M. C., London.
Bentley, M. J., Esher.
Boardall, K., Halifax.
Boty, J. W., Carshalton.

Carter, N. A., Huddersfield.
Challender, J. G., Bolton.
Chambers, C. L., London.
Charters, R. J., Par, Cornwall.
Child, D., Bradford.
Cole, A. E., Walsall.
Coverdale, D., Bingley.

Dane, M. W. S., Ewell.

Elkin, G. O., Kingston-on-Thames.

Fargher, W. G., Bury.

Garside, P. F., Hyde.
Gaskell, J. R., Wigan.
Gerrard, R. K., Bolton.
Giffin, M., Otford.
Gillard, W., Sutton Coldfield.
Gomarsall, D. A., Ruislip.
Gould, N. S., Penarth.
Gray, J. P., Littleport, Cambs.

Hamper, R. G., Worcester Park.
Harrop, J., Manchester.
Hayes, A., Blackburn.
Heath, J. C., Rickmansworth.
Hill, J. R., Leeds.

Ighodalo, J. A., London.

Jackson, B. J., Chadwell Heath.
Jenkins, J. T. J., Bristol.
Johnson, J. L., London.
Johnston, B. C., Sutton Coldfield.

Longbottom, K. S., Huddersfield.

McCarthy, P. H., Leigh, Lancashire.
McChlery, E. W. K., Newcastle upon Tyne.
Marshall, J. C., Isleworth.
Masterson, P. T., Manchester.

Neville, J. R., Richmond, Surrey.
Nuttall, G. E., Blackpool.

Owen, E. W., Sidcup.

Peak, M. F. R., Romford.
Phipps, P. R. J., Abingdon.
Pickering, N., Blaby.
Powley, R., Worksop.

Sarver, R., Morden.
Seaton, P., Shipston-on-Stour.
Siddons, A., Stockport.
Smith, A. M., Pontefract.
Smith, J. G., Wigan.
Stalworth, P. J., Exeter.
Stanton, D. E. G., London.
Stew, D. J., Cambridge.
Stirling, M. D., Birmingham.
Suthers, G., Pendlebury.

Thomson, P. M., Leominster.
Turner, D. A. J., London.

Wenzerul, M., London.
Wilkinson, J. P., Chelmsford.
Wheeldon, T. R., Bradford.
Woolfenden, P. J. V., Romiley.

Young, M. C. L., Purley.

66 Candidates passed. ***139 Candidates failed.***

'Deloitte' Prize for the year 1951
West, Donald (Chorley) (May 1951 Preliminary Examination)

Summary of Results

	Final	Intermediate	Preliminary	Total
Candidates Successful.. ..	504	368	66	938
Candidates Failed	552	522	139	1,213
Candidates Sat	1,056	890	205	2,151

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Results of Examinations held in December 1951

FINAL EXAMINATION

As a result of the examination held on December 10th, 11th, 12th, 13th and 14th, 1951, the undermentioned 120 candidates qualified for the Institute's Final examination certificate: their names appear in alphabetical order and are followed by the names of the firms of the Masters to whom they were indentured (or assigned).

Adamson, D. (A. C. Philp & Co), Dunfermline.
Anderson, J. H. (Dalgleish & Tullo), Edinburgh.
Arbuckle, M. (Kelman, Moore & Co), Glasgow.

Battersby-Hartford, J. M. (Wright, Stevens & Lloyd), London.
Bayne, R. D. (Mackay, Irons & Co), Dundee.
Bennet, T. A. (Wilson, Stirling & Co), Glasgow.
Bennie, P. (McLay, McAlister & McGibbon), Glasgow.
Blakey, R. W. W. (Peacock & Henry), Glasgow.
Blyth, J. (McClelland, Ker & Co), Glasgow.
Bond, W. M. (Thomson McLintock & Co), Glasgow.
Boyd, J. B. (Charles Leigh Brown & Son), Glasgow.
Boyd, W. (Mann, Judd, Gordon & Co), Glasgow.
Brown, Eunice McG. S. (John E. Watson & Co), Glasgow.
Brown, W. M. (Kerr, MacLeod & Macfarlan), Glasgow.
Buchanan, W. C. (Thomson McLintock & Co), Glasgow.
Buist, R. C. (Moody Stuart & Robertson), Dundee.

Cairns, Joyce E. E. (Graham, Smart & Annan), Edinburgh.
Cameron, J. (Kirk & Johnston), Glasgow.
Carmichael, D. D. (Dewar & Robertson), Edinburgh.
Chalmers, D. F. (James Cram & Sons), Dundee.
Chalmers, T. E. (Robert G. Morton & Son), Edinburgh.
Christie, W. B. (Don & Stewart), Dundee.
Cochran, Catherine W. (Todd & Gordon), Glasgow.
Combe, J. A. (T. C. Garden & Co), Edinburgh.
Cromar, A. G. (Davies, Lochhead & Co), Glasgow.
Cullen, P. (Richardson & Lawson), Glasgow.

Dougans, A. (Nairn, Bowes & Craig), Glasgow.
Drysdale, J. (Reid & Mair), Glasgow.
Duncan, J. L. (Mackay, Irons & Co), Dundee.
Duthie, R. G. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Dykes, A. McC. (McFarlane, Hutton & Patrick), Glasgow.

Elder, J. L. (A. & J. Robertson), Edinburgh.

Fenwick, M. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Findlay, A. K. (Moores, Carson & Watson), Glasgow.
Finfer, D. (Hardie, McFarlane & Co), Glasgow.
Fraser, H. T. (Brown, Fleming & Murray), Glasgow.

Gibson, R. W. (Moody Stuart & Robertson), Dundee.
Gillespie, C. R. F. (Fleming & Wilson), Glasgow.
Girdwood, D. G. (Thomson McLintock & Co), Glasgow.
Goodwin, M. D. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Gordon, L. W. (John Thorburn & Co), Glasgow.
Gourlay, E. S. (Mitchell & Smith), Glasgow.
Gow, J. A. H. (McClelland Ker & Co), Glasgow.
Graham, W. C. (Wardhaugh & McVean), Glasgow.
Greig, F. R. (Peter Millar & Crichton), Glasgow.
Gunn, Sheila (Thomson McLintock & Co), Glasgow.

Hardie, W. (Mann, Judd, Gordon & Co), Glasgow.
Heath, M. A. (Kerr, MacLeod & Macfarlan), Glasgow.
Henderson, R. T. (Welsh, Walker & Macpherson), Greenock.

Kay, A. D. R. (Moores, Carson & Watson), Glasgow.
Kelly, H. A. (Nairn, Bowes & Craig), Glasgow.
Kirkpatrick, J. L. (Thomson McLintock & Co), Glasgow.

Laidlaw, R. F. (Dalgliesh & Tullo), Edinburgh.
Law, A. R. (A. G. Murray & Co), Edinburgh.
Lennox, J. G. (A. & C. M. Davidson Smith), Edinburgh.
Lindsay, D. P. (Mann, Judd Gordon & Co), Glasgow.
Logan, J. (Peacock & Henry), Glasgow.
Luscombe, L. E. (Walter & W. B. Galbraith), Glasgow.
Lyle, S. R. P. (David Strathie & Co), Glasgow.
Lyon, D. R. L. (Mann, Judd, Gordon & Co), Glasgow.

McCance, D. G. (Brown, Fleming & Murray), Glasgow.
McEwen, J. T. (R. S. McLellan), Glasgow.
McGregor, D. (Nairn, Bowes & Craig), Glasgow.
McIntyre, D., Jun. (Peat, Marwick, Mitchell & Co), Glasgow.
Mackie, R. F. (Davies, Lochhead & Co), Glasgow.
McKinnon, J. (McFarlane, Hutton & Patrick), Glasgow.
Maclaurin, A. D. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
MacLellan, J. D. H. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
McLintock, C. A. (Thomson McLintock & Co), London.
McMillan, J. (McAdam & Shaw), Glasgow.
MacNaughton, D. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
McPherson, D. V. (S. Easton Simmers & Co), Glasgow.
MacQuarrie, D. (Moores, Carson & Watson), Glasgow.
Mair, M. I. (A. G. McBain & Co), Glasgow.
Malcolm, A. P. F. (Walker & Henderson), Edinburgh.
Marks, T. D. (Alexander Houston), Glasgow.
Mason, D. L. (Wilson, Stirling & Co), Glasgow.
Mather, J. W. (Gregor Grant), Coatbridge.
Meiklejohn, J. (Rattray Bros, Alexander & France), Glasgow.
Mitchell, J. S. (Hourston, Macfarlane & Co), Glasgow.
Morison, R. (Thomson McLintock & Co), Glasgow.
Morris, R. B. (McLay, McAlister & McGibbon), Glasgow.
Muir, G. (Jardine, Dunlop & Anderson), Glasgow.
Mulrine, G. (Mitchell & Smith), Glasgow.
Murphy, D. J. (Nelson, Gilmour, Scott & Co), Glasgow.
Murray, R. L. St C. (Graham, Smart & Annan), Edinburgh.

Niven, G. G. (E. C. Finlayson), Aberdeen.

Paterson, J. E. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Phillips, A. McA. (D. M. McNaught & Co), Glasgow.

Reid, C. J. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Rennie, I. W. (Thomas Rennie), Aberdeen.
Richmond, P. J. I. (Brown, Fleming & Murray), Glasgow.
Robertson, J. C. (T. J. Yule), Uddingston.
Russell, G. (Craston Thomson & Allison), Glasgow.
Russell, J. S. (McFarlane, Hutton & Patrick), Glasgow.

Sclanders, J. S. (Thomson McLintock & Co), London.
Scott, J. (Boyack, Whitelaw & Aitchison), Edinburgh.
Scougall, R. (Gregor Grant), Coatbridge.
Shaw, W. C. (Alex. M. Shaw & Co), Glasgow.
Sim, R. L. (Johnston, Logie & Millar), Dundee.
Sinclair, D. R. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Sinclair, J. W. (Thomson McLintock & Co), London.
Slade, K. J. (Dunn, Wylie & Co), London.
Smith, R. McG. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Somerville, H. F. (Kerr, MacLeod & Macfarlan), Glasgow.
Spratt, G. (Arthur Walker), Edinburgh.
Stewart, J. R. (Moores, Carson & Watson), Glasgow.
Storar, J. R. A. M. (A. & J. Robertson), Edinburgh.
Sturgeon, E. (McLachlan & Brown), Glasgow.
Sutherland, J. S. (Boyack, Whitelaw & Aitchison), Edinburgh.

Taylor, M. G. (Rattray Bros, Alexander & France), Glasgow.
Temple, R. S. (Moores Carson & Watson), Glasgow.
Turnbull, G. I. McL. (Chalmers, Wade & Co), London.

Wark, J. B. (Rattray Bros., Alexander & France), Glasgow.
Weir, T. W. (Anderson & Menzies), Kirkaldy.
Wight, R. (J. W. & R. N. Oswald), Edinburgh.
Williams, J. D. B. (Peat, Marwick, Mitchell & Co), Glasgow.
Wolfe, W. C. (Howden & Molleson), Edinburgh.
Wylie, A. F. (Dunlop & Murray), Glasgow.

Yule, R. B. (James Cram & Sons), Dundee.

INTERMEDIATE EXAMINATION

As a result of the examination held on December 13th and 14th, 1951, the under-mentioned 150 candidates qualified for the Institute's Intermediate examination certificate: their names appear in alphabetical order and are followed by the names of the firms of the Masters to whom they were indentured (or assigned).

Adam, I. W. (Robertson & Brown), Glasgow.
Alexander, K. B. (Wylie & Bisset), Glasgow.
Allan, W. C. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Anderson, G. A. G. (A. & J. Robertson), Edinburgh.
Anderson, J. A. (A. & J. Robertson), Edinburgh.

Baldwin, K. W. (Brown, Fleming & Murray), London.
Battell, B. R. (Sproull, Goddard & Co), Harrow.
Benson, I. P. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Berrie, W. W. (Russ, Ferguson & Maclennan), Glasgow.
Biggart, A. G. (Moores, Carson & Watson), London.
Biggart, C. M. (Robertson & Brown), Glasgow.
Bird, A. J. (John M. Geoghegan & Co), Edinburgh.
Black, M. R. (Wallace & Somerville), Edinburgh.
Bonnar, D. K. (Dewar & Robertson), Edinburgh.
Bremner, A. D. (Flockhart & Grant), Aberdeen.

Cameron, J. P. (Kerr, Macleod & Macfarlan), Glasgow.
Campbell, J. W. M. (Parker, Lawson & Stevenson), Glasgow.
Carey, J. G. (Fraser, Lawson & Laint), Glasgow.
Chapman, A. (George Anderson), Aberdeen.
Clements, I. G. C. (Brown, Fleming & Murray), London.
Clow, J. C. (Paterson & Steel), Glasgow.
Cochrane, A. B. (Hourston, Macfarlane & Co), Glasgow.
Connolly, T. (Crawford & Paxton), Dumbarton.
Cowan, J. B. (Wylie & Bisset), Glasgow.
Craig, D. (Finnie, Ross, Welch & Co), Glasgow.
Crawford, J. C. (Hardie, Caldwell Ker & Hardie), Glasgow.
Crawford, Rosemary A. (Barstow & Millar), Edinburgh.
Cumming, J. A. (A. & J. Robertson), Edinburgh.
Cummingham, Avice M. (Macmeekan & Lawson), Edinburgh.
Currie, J. F. (Rolland & Pomphrey), Glasgow.

Davidson, Elizabeth P. (Bower & Smith), Aberdeen.
Donaldson, D. J. (John Lauder & Co), Glasgow.
Douglas, J. (Kerr, MacLeod & Macfarlan), Glasgow.
Dreghorn, N. (Todd & Gordon), Glasgow.
Duncan, J. B. (Brodie, Burns & Anderson), Glasgow.

Ferenbach, J. A. C. (Robertson & Carphin), Edinburgh.
Fergus, J. G. (Mann, Judd, Gordon & Co), Glasgow.
Ferguson, J. N. (Robert Taylor & Co), Edinburgh.
Fleming, J. (Michell & Smith), Glasgow.
Flett, T. S. G. (Parlane McFarlane), Glasgow.
Forgie, W. K. (Paterson & Benzie), Glasgow.
Fortune, D. M. (Graham, Smart & Annan), Edinburgh.
Frame, W. (Wilson, Stirling & Co), Glasgow.
Fraser, A. (McClelland, Ker & Co), Glasgow.
Fraser, A. (Kidston, Goff & Harvey), Glasgow.
Fraser, R. J. (Fleming & Wilson), Glasgow.
Frost, K. (Graham, Smart & Annan), Edinburgh.
Furse, A. W. (Howden & Molleson), Edinburgh.

Gallacher, Elizabeth M. (Leo Higney), Glasgow.
Garrity, D. (Kelman, Moore & Co), Glasgow.
Gilfillan, J. S. (Davidson & Workman), Glasgow.
Goodlet, W. E. (Carter, Greig & Co), Edinburgh.
Goodwin, J. M. (Davidson, Downie & McGown), Glasgow.
Gould, W. (R. Stephen Milne), Paisley.
Grant, K. M. (McClelland, Ker & Co), Glasgow.
Gray, J. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Gurrey, W. J. (Mann, Judd, Gordon & Co), Glasgow.
Guthrie, A. P. (Thomson McLintock & Co), Glasgow.

Hall, A. H. (Cole-Hamilton & Dunley), Glasgow.
Hannah, Elizabeth L. (Mann, Judd, Gordon & Co), Glasgow.
Hart, I. D. (Wylie & Bisset), Glasgow.
Hepburn, J. R. (Moores, Carson & Watson), Glasgow.
Hepburn, J. (Davies, Lochhead & Co), Glasgow.
Hillary, R. H. (T. C. Garden & Co), Edinburgh.
Hodgson, D. E. (Ferguson & Vost), Glasgow.
Holmes, A. C. (John E. Watson & Co), Glasgow.
Houston, E. (James Henry Reid & Son), Aberdeen.
Howe, D. A. (Hourston Macfarlane & Co), Glasgow.

Ingram, W. (McLachlan & Brown), Kilmarnock.

Keir, J. M. L. (Thomson McLintock & Co), Glasgow.
Kerr, W. F. (W. M. Kesson & Co), Glasgow.
Kinnear, J. A. M. (Thomson McLintock & Co), Glasgow.
Kirkwood, W. H. M. (Thomson McLintock & Co), Glasgow.
Klein, G. S. (Smallfield, Rawlins & Co), London.

Liddle, R. C. (Russ, Ferguson & Maclennan), Glasgow.
Lockhart, J. D. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Low, E. G. I. (A. G. Murray & Co), Edinburgh.
Lyon, H. C. (McIntyre & Rae), Dundee.

McAuley, J. A. (Parker, Lawson & Stevenson), Glasgow.
MacCrimmon, A. G. (Williamson & Dunn), Aberdeen.
McGlennon, T. J. A. (Hardie, Caldwell Ker & Hardie), Glasgow.
McGregor, R. W. (Martin, Currie & Co), Edinburgh.
McIlvride, R. E. (Dickson, Middleton & Co), Stirling.
McIntosh, J. (Peacock & Henry), Glasgow.
McIntyre, D. R. (Mackie & Clark), Glasgow.
MacKeith, D. H. (Thomson McLintock & Co), London.
Mackenzie Ross, P. E. (Chiene & Tair), Edinburgh.
Macluskie, R. B. (Watson McCarroll & Co), Glasgow.
McMurray, D. (Mitchell & Smith), Glasgow.
McRae, T. W. (A. G. Murray & Co), Edinburgh.
Mallinson, J. P. D. (George A. Touche & Co), London.
Marshall, C. M. (Howie, Selkirk & Jackson), Glasgow.
Marshall, D. P. (Kirk & Johnston), Glasgow.
Martin, J. I. R. (Howden & Molleson), Edinburgh.
Menzies, C. A. R. (Moody Stuart & Robertson), Dundee.
Miller, D. C. (D. M. McNaught & Co), Glasgow.
Mitchell, A. J. (Charles Burrown & Co), Edinburgh.
Morrow, J. (Fleming & Black), Glasgow.

Newlands, S. (Todd & Gordon), Glasgow.
Noble, J. S. (Robertson & Carphin), Edinburgh.

Oliver, J. G. (Graham, Smart & Annan), Edinburgh.

Palmer, W. K. (Whitson, Wells & Co), Edinburgh.
Park, I. L. (Fleming & Black), Glasgow.
Partridge, H. C. (Kennedy Smellie & Co), Edinburgh.
Perkins, D. S. (John E. Watson & Co), Glasgow.
Pirie, E. D. (Dickie, Pirie & Co), Aberdeen.
Preston, J. B. (Thomson, Jackson, Gourlay & Taylor), Glasgow.

Ramsay, A. M. (Russ, Ferguson & MacLennan), Glasgow.
Reid, A. G. (W. S. Brown, MacDonald & Fleming), Edinburgh.
Riddell, R. (Russ, Ferguson & MacLennan), Glasgow.
Riddell, W. J. H. (Henderson & Loggie), Dundee.
Robb, A. D. S. (Thomson McLintock & Co), London.
Robertson, I. A. (J. Wyllie Guild & Ballantine), Glasgow.
Robertson, J. S. (Galbraith, McEwan & Co), Ayr.
Robertson, T. V. (J. Y. Finlay, Robertson & Co), London.
Rogerson, R. G. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Ronald, T. I. (Peacock & Henry), Glasgow.
Russell, T. (Reid & Mair), Glasgow.

Scott, C. M. (John E. Watson & Co), Glasgow.
Scott, D. A. (A. Galloway Brown), Aberdeen.
Scott, Janol (A. G. Murray & Co), Edinburgh.
Sen, R. (Peat, Marwick, Mitchell & Co), London.
Shoolbraid, W. R. (James Murray & Co), Cupar.
Sinclair, D. McI. (Richardson & Lawson), Glasgow.
Sinclair, J. B. (Wylie & Bisset), Glasgow.
Smith, D. A. M. (Lindsay, Jamieson & Haldane), Edinburgh.
Smith, W. K. J. (Thomas Kelly & Co), Glasgow.
Steele, G. L. (Mitchell, Kennaway & Co), Aberdeen.
Stewart, G. J. P. (Rattray Bros, Alexander & France), Glasgow.
Stewart, J. W. (Hamilton Eddy & Rowand), London.
Storm, W. (Todd & Gordon), Glasgow.
Stuart-Stevenson, J. (Scott-Moncrieff, Thomson & Shiells), Edinburgh.

Taylor, D. D. (E. C. Finlayson, M.A.), Aberdeen.
Taylor, G. H. (Mann, Judd, Gordon & Co), Glasgow.
Taylor, J. W. M. (W. P. & J. A. Scott), Edinburgh.
Taylor, M. W. (Graham, Smart & Annan), Edinburgh.
Taylor, T. P. C. (Thomson McLintock & Co), Glasgow.
Taylor, V. R. M. (F. A. Ritson & Co), Aberdeen.
Thomson, G. B. (Nelson, Gilmour, Scott & Co), Glasgow.

Wardrop, D. W. (Wm. Home Cook & Co), Edinburgh.
Watson, K. A. (T. Hunter Thomson), Edinburgh.
Webster, R. O. C. (McIntyre & Rae), Dundee.
Weir, W. S. R. (Carter Greig & Co), Edinburgh.
White, N. H. (Fleming & Wilson), Glasgow.
Wilson, J. (Kerr, MacLeod & Macfarlan), Glasgow.
Wright, G. H. (Mackay, Irons & Co), Dundee.
Wright, Nan P. (Nelson, Gilmour, Scott & Co), Glasgow.
Wyllie, N. J. (Hourston Macfarlane & Co), Glasgow.

Yorston, R. (Girdwood, Allison & Logan), Ayr.
Yuile, W. (E. H. Stanley Craig & McIntyre), Glasgow.

NOTES AND NOTICES

Personal

MESSRS WOOLGER, HENNELL, SCOTT-MITCHELL & Co, Chartered Accountants, of 165–167 Moorgate, London, EC2, announce that Mr KENNETH W. S. CLARK, A.C.A., who has been a member of their staff for a considerable number of years has been taken into partnership.

MESSRS HARVEY PREEN & Co, Chartered Accountants, of 17 Basinghall Street, London, EC2, announce with regret the sudden death on Saturday, January 26th, 1952, of Mr JAMES GORDON IMRAY, F.C.A., a partner in the firm since 1939.

MESSRS J. C. GRAHAM & SPOOR, Chartered Accountants, Art Gallery Chambers, 5 Higham Place, Newcastle upon Tyne, 1, announce that as from January 1st, 1952, they have taken into partnership Mr DAVID HENSON, A.C.A., who has been associated with the firm since 1920. The firm will continue under its present title.

MESSRS EDWARD THOMAS PEIRSON & SONS, Chartered Accountants, of 13 Eaton Road, Coventry, announce with regret the death on February 2nd, 1952, of their senior partner, Mr SIDNEY THOMAS PEIRSON, J.P., F.C.A. The practice will be continued under the same name by the remaining partners.

MESSRS DAVIES BROS & Co, Chartered Accountants, of 27 Clement's Lane, Lombard Street, London, EC4, announce that Mr W. DOWNS, C.A., and Mr E. A. W. GISBY, A.C.A., who have been senior members of their staff for some years, have been taken into partnership. The name of the firm will remain unchanged.

Professional Notes

Mr Alfred Whittle, F.C.A., chairman of Wall Paper Manufacturers Ltd, and other companies, has joined the board of directors of John Dickinson & Co Ltd.

Mr E. B. Orr, B.A., F.C.A., has resigned his position as chief accountant of The Morgan Crucible Co Ltd.

Mr J. T. Bell, A.S.A.A., has been appointed a director of Sir Lindsay Parkinson & Co Ltd, building contractors.

Mr G. M. C. Hanman, A.C.A., secretary of Thrutchley & Co Ltd, coal and coke distributors, of Manchester, London, Liverpool, Cardiff, etc., has been appointed a director of the company.

Deputy Lieutenants for Leicestershire

Lieut.-Col. G. L. Aspell, T.D., F.C.A., a partner in the firm of Aspell, Dunn & Co, chartered accountants, of Leicester, and Lieut.-Col. W. G. Fox, T.D., M.A., A.C.A., a partner in the firm of Fox & Co, of Leicester, were sworn in recently as Deputy Lieutenants for Leicestershire by Lord Cromwell, Lord Lieutenant of the county.

Obituary

SIDNEY THOMAS PEIRSON, J.P., F.C.A.

We have learned with regret of the death on February 2nd, at the age of 87, of Mr Sidney Thomas Peirson, J.P., F.C.A., senior partner in the firm of Edward Thomas Peirson & Sons, Chartered Accountants, of Coventry.

Mr Peirson was articled to his father, Mr Edward Thomas Peirson (one of the original members of the Council of the Institute) in 1879 – in the days when a seven-year term of articles was necessary – and was admitted an Associate of the Institute in 1887, being elected a Fellow in 1913.

He acted as professional auditor to the Coventry Corporation for a period of thirty years, an appointment previously held by his father from 1875. A member of the Board of Referees, Mr Peirson was also a Justice of the Peace for the City of Coventry, a member of the local National Savings Committee, and a member of the Council of the Coventry Chamber of Commerce.

Until within a few weeks of his death, Mr Peirson took an active part in his firm's affairs, attending regularly at his office.

STANLEY HOWARD BERSEY, O.B.E., F.C.A.

It was with regret that we heard of the death of Mr Stanley Howard Bersey, O.B.E., F.C.A., a partner in the firm of Farrow, Bersey, Gain, Vincent & Co, Chartered Accountants, of New Broad Street, London.

Mr Bersey, who was 74, gained honours in the Intermediate and Final examinations of the Institute and was admitted an Associate in 1900. He was elected a Fellow in 1907.

In June of 1901, at the early age of 23 he was taken into partnership in the firm of Attree, Bersey & Co, which subsequently became Bersey, Vincent & Co, and which in 1919 was merged with other practices to found the present firm.

During the First World War, Mr Bersey served in the Explosives Department of the Ministry of Munitions, becoming Controller of Contracts in 1918. For his services with the Ministry of Munitions he was awarded the O.B.E.

A director of several companies, Mr Bersey was also an underwriting member of Lloyd's. He was a Freemason and attained the office of Provincial Grand Director of Ceremonies in the Grand Lodge of Sussex and was a member of London Rank. A tennis player of considerable merit in his younger days, he later became an enthusiastic golfer and was a member of Sunningdale Golf Club.

Overseas Economic Surveys

ECONOMIC AND COMMERCIAL CONDITIONS IN SWITZERLAND

A survey of economic and commercial conditions in Switzerland has been published by His Majesty's Stationery Office, price 4*s* 6*d* (post free 4*s* 9*d*). This is the latest volume in the series of Overseas Economic Surveys issued by the Commercial Relations and Exports Department of the Board of Trade.

East Anglian Society of Chartered Accountants

The East Anglian Society of Chartered Accountants quarterly meeting on the afternoon of January 30th was a joint meeting with H.M. Inspectors of Taxes' Association (Eastern Region). With Mr A. F. Kent, J.P., F.C.A., President of the Society, in the chair, and Mr C. Radbourne, Inspecting Officer for the Eastern Area of the Inland Revenue, also present, the meeting was attended by fifteen Inspectors, and some sixty members of the society and articled clerks.

Items on the agenda, upon which there was wide and interesting discussion, included: the accountancy profession in relation to the Inland Revenue; administration within a practising accountant's office in relation to the Inland Revenue, and vice versa; the form of certificates on accounts, other than accounts of companies; schedules of information in support of accounts submitted to the Inland Revenue.

Blackpool and Fylde Chartered Accountants

The Blackpool and Fylde Branch Chartered Accountants' Society held their third annual general meeting, preceded by a luncheon at the *Palatine Hotel*, Blackpool, on Monday, January 28th. Mr G. A. Box, F.C.A., was in the chair, and there were seventeen members present.

Alderman F. I. Nickson, M.B.E., F.C.A., was invited to become the Society's President for the ensuing year, and a vote of thanks was passed to Mr T. H. Blane, J.P., F.C.A., the retiring President.

The same committee was elected as last year; Mr J. D. Eckersley, A.C.A., was re-elected Hon. Secretary, and Mr J. S. Walker, A.C.A., was again appointed auditor.

At the Society's monthly luncheon meeting held on February 4th the speaker was Mr R. G. King, A.C.A., who gave an address on 'Accountancy training' with special reference to the Blackpool Technical College.

Burnley Branch Chartered Accountants' Society

The fourth annual general meeting of this society was held at the *Sparrow Hawk Hotel*, Burnley, on February 1st, 1952. The committee was reappointed *en bloc* with the addition of Mr J. Stansfield, F.C.A. (Colne). The Hon. Secretary is Mr T. Thornton, A.C.A., c/o Messrs George Pedley & Co, Chartered Accountants, 8 Ormerod Street, Burnley.

Mr H. Sutherst, F.C.A., Past President of the Manchester Society, and Mr W. Hare, M.A., F.C.A., Secretary of the North Lancashire Branch, were guests at the dinner which followed.

Amongst other guests who attended were Mr A. Ashworth, F.I.M.T.A. (*Burnley Borough Treasurer*), Mr R. Caul, M.C., F.L.A., Mr W. Gann (*Deputy Town Clerk*), and Mr J. Parkinson, F.C.I.A., F.B.S.

Estate Duty Forms

The Board of Inland Revenue has stated that the existing English Form C-1, which is used to account for estate duty on all property (other than free personalty) passing on the death, except where duty is paid upon the Inland Revenue affidavit or upon a corrective affidavit, is being replaced by three separate forms. They are:

(1) *Form C-1* (*I.V.G.*) for all cases of *inter vivos* gifts, whether made with or without reservation.

(2) *Form C-1* (*Timber*) to account for estate duty on timber or proceeds of sale thereof.

(3) *Form C-1* (*General*) for all other cases where the existing Form C-1 has hitherto been regarded as appropriate.

Prints of the Form C-1 (I.V.G.) can now be obtained from the Controller, Estate Duty Office, Minford House, Rockley Road, West Kensington, London, W.14; and on personal application only at the London Chief Post Office, King Edward Building, EC1; the branch post offices at Fleet Street, EC4; Chancery Lane, WC2; East Strand, WC2; High Holborn, WC1; Jermyn Street, SW1; and Throgmorton Avenue, London Wall, EC2; and head post offices outside the Metropolitan postal district.

Prints of the Form C-1 (General) will be similarly available as soon as existing stocks of the present Form C-1 are exhausted.

Prints of the Form C-1 (Timber) can be obtained only from the Controller, Estate Duty Office.

The London Chamber of Commerce

The Commercial Education Committee of the London Chamber of Commerce is offering, under a scheme revised in January 1951, scholarships from the 'Charles R. E. Bell Fund', for men and women anxious to pursue higher commercial studies in either this country or abroad. The monetary value of each scholarship will vary according to the needs of the student and the period of study, or service under articles, to be undertaken, and will not normally exceed £500. Applicants, who must be of British nationality and 18 years of age or over, are free to propose for the consideration of the committee any subject and method of study they desire.

Further details and application forms, which must be submitted before March 31st, may be obtained from the Principal of the Commercial Education Department, The London Chamber of Commerce (Incorporated), 69 Cannon Street, London, EC4.

Course of Taxation Lectures

It is proposed to hold at Kingsway Hall, Kingsway, WC2, a course of seven lectures, on taxation law and practice, as detailed below. All lectures will commence at 6.15 p.m. and will be for 1¼ hours, including time for questions.

The lectures will take place on Wednesdays, commencing February 20th, 1952, and the lecturers will be Mr Percy F. Hughes, A.S.A.A., F.C.I.S., Assistant Editor of *Taxation*, and Mr T. L. A. Graham, A.S.A.A., of *Taxation*.

The seven lectures are as follows: (1) 'Capital allowances', by Mr Graham; (2) 'Some points on back duty', by Mr Hughes; (3) 'Taxation of profits from property transactions', by Mr Graham; (4) 'Income-tax consolidation bill', by Mr Hughes; (5) 'Revision of assessment', by Mr Graham; (6) 'Settlements and sur-tax', by Mr Hughes; (7) 'Profits tax', by Mr Graham.

These lectures should be of value to students preparing for the various professional examinations, supplementing their studies and presenting the practical aspect of the subject.

To practitioners, the lectures should present an opportunity of revising and bringing up to date their knowledge of the subject.

Light refreshments at reasonable prices will be obtainable on the premises between 5 p.m. and 6 p.m. before each lecture.

The fee for the course is £1 1s and applications for admission cards for the lectures, together with remittance, should be sent to Mr Ernest T. Green, F.C.C.S., Kingsway Hall, Kingsway, London, WC2. Telephone: Holborn 8860. Cheques should be made payable to 'Ernest T. Green'.

Back Duty in India

We have received a copy of an interesting paper entitled 'Back duty', by Mr N. M. Shah, F.C.A., read at the Bombay Region Chartered Accountants' Conference on October 1st, 1951.

Birmingham Chartered Accountants' Golfing Society

A meeting of members and prospective members is to be held on Monday, February 25th, at 5.30 p.m. at the Chartered Accountants' Library, 71 Edmund Street, Birmingham, 3, to arrange a programme of matches and meetings for 1952. Anyone in the Birmingham area who may be unable to attend is invited to forward suggestions to the Hon. Secretary, Mr Ernest S. Hall, F.C.A., Harborne House, 49 Poplar Road, Solihull, Birmingham. Telephone: Solihull 3051.

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The Accountant

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CUSTOMS AND EXCISE CONSOLIDATION

THE laudable process of making the law easier to find, if not easier to understand, has reached a further stage by the publication of a Bill to consolidate, with amendments, the enactments relating to customs and excise. This field is certainly worthy of attention in view of the scattered nature of these enactments. The duties covered are of greater antiquity than income-tax, and there has been no consolidating Act comparable with the Income Tax Act, 1918. Nearly two hundred separate Acts, dating from 1795, have gone into the making of the new Bill, which has 321 clauses and eleven schedules, the repeal schedule covering thirteen pages. Even so, not all the legislation is included; scales of *ad valorem* duties in force, and the legislation relating to purchase tax, have been left out. Moreover, that unwelcome adjunct of most modern statutes, the power to make detailed regulations, is not lacking. Nevertheless, the Bill represents a reasonably complete statement of the law and, when it comes into force as an Act, probably on January 1st, 1953, it will be worth possessing, not only by those who are professionally concerned with it, but by all those laymen who find so puzzling those frequent references to customs and excise law which everyone has seen but so few understand.

The logical and orderly arrangement of the Bill is admirable. One of the incidental consequences of it is the appearance, cheek by jowl with modern and well-known provisions, of others which have been lifted from long obscurity, at least as far as the layman is concerned. In particular it is a little startling to find how many offences can be committed, and what severe penalties attend upon them. Among the various measures for the prevention of smuggling is a clause of 1876 vintage which makes it an offence, under a heavy penalty, to offer goods for sale as smuggled goods, even though they have not in fact been smuggled and even though they may not be liable to any duty. Another offence is 'grogging', that is, the abstraction, from the wood of a cask, of spirits which have been absorbed by it. The usual method for this, we understand, was to add hot water, hence the name 'grog'.

A curious lacuna in the Statutes is the absence of a definition of 'intoxicating liquor', although it would seem by inference from other provisions that liquor is intoxicating if it is of a strength above two degrees of proof. 'Proof' itself is carefully defined by clause 172. Spirits are at proof if the volume of ethyl alcohol in them, made up to the volume of the spirits with distilled water, has a weight equal to that of twelve-thirteenths of a volume of distilled water equal to the volume of the spirits.

THE AUDITOR'S RESPONSIBILITY

ASPECTS OF SOME AMERICAN PROBLEMS

IN a leading article in our last issue on the taxation papers presented at the sixty-fourth annual meeting of the American Institute of Accountants, we referred in passing to the discussions which had taken place at the same conference on the subject of the auditor's responsibility. Five aspects of this important topic were dealt with – reliance upon work of other auditors; the auditor's responsibility for events after the balance sheet date; the extent of the auditor's responsibility for seeing that his clients comply with state 'controls' in operation; the question of clarifying the auditor's report when an opinion on the accounts is omitted; and, lastly, the suitability or otherwise of the standard 'long-form' type of auditor's report currently in use in America.[1] The last two items are mainly of domestic interest, but the others have a universal application.

Reliance on Other Auditors

MR J. WOODROW MATHEWS, C.P.A., said that, according to Rule 6 of the Rules of Professional Conduct of the American Institute of Accountants, one auditor may rely on the work of another auditor provided that the latter is a certified public accountant or the equivalent which, he added, includes members of similar associations in foreign countries. Further, the regulations of the Securities and Exchange Commission provide that the certificates of both auditors should be filed with the annual accounts, but add that the certificate of the subsidiary auditor need not be filed if no reference is made to his examination in the principal auditor's certificate or if, having referred to it, the principal auditor states that he assumes responsibility for the other accountant's examination as he does for his own. An analysis of published annual reports has shown that it is rather general practice to state in the first, or 'scope', paragraph of the American auditor's report that examinations have been made by other auditors. In some cases, this is supplemented by information giving the percentages or dollar amounts of the assets, or assets and income, so checked. Reference in the second, or 'opinion', paragraph of the report to the work of other auditors is, as often as not, omitted unless the principal disagrees with the subsidiary auditor.

Other instances of one auditor having to rely on the work of another are where the audit for the previous year was done by someone else, and joint audits. In the former, although the Securities and Exchange Commission considers that the opening balances from the previous account, as reported by the then auditor, may be accepted as the starting basis, a general review of all assets and other accounts should normally be made by the new auditor. In the case of joint audits, the work should be so planned and carried out that the two auditors, in practice if not in theory, act as one entity and not two.

MR MATHEWS summarized his observations by asking the following three questions:

(1) Should it be standard auditing procedure to disclose in the scope paragraph of the opinion the extent, if material, of assets and income examined by another auditor?
(2) Again assuming material amounts to be involved, should the principal auditor have an option either to accept responsibility or to take exception and see that the opinion of the other auditor is furnished?
(3) If the principal auditor has satisfied himself as to the credentials of the subsidiary auditor and also as to the thoroughness of his examination, is he fully justified in accepting full responsibility?

Before and After

The auditor's responsibility for events after the balance sheet date was discussed by MR GORDON M. HILL, C.P.A. In his opinion, the auditor had a duty or right to find out any information about happenings after the end of the financial year which would have a retrospective effect on the affairs of the client. It was not necessary, however, to apply auditing procedures to that period unless for some specific object, such as ascertaining outstandings or verifying sales of stock valued at the balance sheet date at prices stated to have been subsequently realized. The auditor should peruse the minutes of the board meetings avail-

[1] 'Five New Guides to the Auditor's Responsibility'. American Institute of Accountants, $0.75.

able to the completion of the audit, the subsequent monthly financial statements and any relevant reports prepared by the client's staff including, of course, the chairman's report to the shareholders to be circulated with the accounts. From any of these the auditor might derive a lead which he considered might justify a further examination of the company's records extending beyond the balance sheet date. His responsibility with regard to such information, however acquired, would be confined to events,

> 'a showing of the effect of which or at least a description thereof, must be included in the financial statement for such statements to be fair representations'

in his opinion. All other items may be ignored by the auditor although management may consider that mention of them should be made in the report accompanying the accounts. The trend is towards a greater disclosure of such events, and this MR HILL attributed to: a wholesome desire for financial statements to be as informative as possible; reaction to the propaganda effect of the much-used phrase 'responsibility in connexion with subsequent events'; and the influence of the Securities Act of 1933.

An extreme instance of a necessary disclosure would be where a company completely altered the character of its business immediately after the balance sheet date. An investment trust, for example, might sell its marketable securities and acquire the controlling interest in a number of manufacturing companies. By reason of this change, the accounts, when published, would be wholly unrelated to the present status of the company unless some reference was made to these interim happenings. More moderate examples of desirable disclosures are legal proceedings, instituted after the date of the balance sheet, but based on prior events and still in progress when the accounts appear; and subsequential loss from, say, a fire or an earthquake where the company was not, or was inadequately, insured. Examples of events which need not be disclosed in the accounts themselves – although reference to them in any accompanying report by the management should be encouraged – are alterations in the plant structure or product range of the company, wages adjustments or changes in personnel. These cannot affect past profits and, although their future influence may be hazarded, it is not within the province of the auditor to prophesy. Generally, the degree to which the particular item will affect the figures in the accounts and not the magnitude of the item itself should be the criterion in deciding what to disclose, and this must be a matter for the judgment of the auditor.

Compliance with 'Controls'

Wars and the increasing complexities of our business economy have made controls a permanent feature of our industrial civilization. MR DONALD J. BEVIS, C.P.A., on considering their effect on the responsibilities of the auditor, said that, although accounting procedures and practices had been developed to meet changing economic conditions, some of the emergency control laws did not 'readily fall into place' in the customary examination of financial statements. It was therefore incumbent upon the auditor to know something of those new laws, although it was not his specific duty to see that they were enforced. His primary responsibility was to report on the financial statement and modern auditing standards, and techniques had been evolved to this end. These consist of testing and sampling the financial transactions, reviewing the internal control and accounting procedures and verifying from responsible officials that the relevant laws and regulations have been complied with. It is only if, in the course of his normal examination, he comes across evidence which suggests that a control law has been infringed and that the resultant liability might materially affect the financial statement on which he has to give his opinion, that the auditor must prolong his check to the extent required by the circumstances. This policy was in accordance with a directive which the American Institute of Accountants had included in a bulletin relating to wartime regulations and the problems were fundamentally the same today as then.

It has been suggested that the auditor should be made to report that he has been unable, or not in a position, to determine whether his client had complied with the control laws. This would seem to be an 'unwarranted disclaimer' of the auditor's responsibility and would cast doubt on the integrity of the client and his accounts. The auditor, MR BEVIS concluded, should be in a position to appraise the effect of the control laws on the accounts which he is examining.

HOUSE PURCHASE

LOANS AND ENDOWMENT ASSURANCES

by P. C. ELLIOTT, A.C.A.

WHEN advising on the obtainment of a loan for the purpose of house purchase, the accountant may be required to compare the costs of a loan made with an endowment assurance as collateral security and one made without. The comparative costs of these loans to the borrower are complicated by several factors: these are considered below in some detail.

A brief outline of the more familiar differences distinguishing the two methods is first necessary.

Scheme A: Loan made without an Endowment Assurance

A loan is made (secured by the property) and interest (gross) is added at the end of each year calculated on the balance outstanding at the beginning of each year.

Repayment is provided for by monthly or other periodic instalments; these are first applied against the gross interest accrued, and the balance of the instalment is used to reduce the capital sum borrowed. It follows that as each year the capital sum outstanding is reduced, interest charges become smaller and the monthly instalments, being constant in amount, become in nature steadily less of interest and more of capital.

Scheme B: Loan made with an Endowment Assurance

A loan is made (again secured by the property) and interest is charged and paid in monthly or other instalments after deduction of tax at the standard rate. No payment, however, is made in reduction of the capital sum borrowed, but at the same time a collateral security is provided in the form of an endowment assurance having a sum assured equal to the sum borrowed and payable after an agreed term of years or earlier death. When payable, the policy proceeds are required to be applied against the loan.

Costs of the Two Schemes

In order to compare the costs of these two schemes, it is necessary to calculate the final effects of taxation and these, *inter alia*, are considered below.

It is worth noting that the age of the borrower has a bearing on the choice of schemes, as under scheme B the policy premium will increase with the mortality risk, but on the other hand the value of the life cover must not be ignored in the calculations.

Interest rates obtainable may differ, but one rate of interest may be fixed for the period of the loan whilst another may be variable with current money rates – an important factor at the present time.

Repayment in Scheme B

The real cost of repayment in scheme B is made up of the net interest paid plus the policy premiums but less the tax allowance given on the premiums which is, when the premiums total over £25 per annum, two-fifths of the annual sum at the highest rate of tax paid by the borrower. To this must be added the 'cost' of restriction of the earned income relief where the gross interest paid exceeds the unearned income (which includes the net annual value of the property) in any one year. It is important to note that this restriction is as great as that under scheme A for the first year *only*, as under scheme A the amount of interest paid is reducing each year and any restriction is consequently also diminishing.

Repayment in Scheme A

The real cost of repayment in scheme A includes the total instalments paid but reduced by the tax rebate on the gross interest paid (restriction on earned income relief applied where relevant) but as the interest charged is less each year the tax rebate diminishes and therefore the real amount of repayment is increasing year by year. Before, therefore, the cost of scheme A can be compared with that of scheme B, the average tax rebate throughout the term of the loan must be calculated – taking interest for a year on half the loan will be a rough guide, and the same standard rate of tax for all years must, of course, be assumed.

Comparison

More income of the borrower must have suffered tax at the standard rate under scheme B than under scheme A to obtain the maximum benefit, as in scheme B it is necessary to cover not only the gross interest paid (which remains at the initial figure based on the full amount of the loan) but also two-fifths of the policy premiums. Where the borrower is assessable to sur-tax there will be, in all years except the first, a higher charge under scheme B reducing his total income.

EXECUTORSHIP AND TAXATION

PRACTICAL DIFFICULTIES MET BY YOUNG PRACTITIONERS

by C. H. KOHLER, F.C.A.

The Editor informs readers that the characters in the following article are purely imaginary and that no reference is intended to any living person.

INTRODUCTION

ONE distinction between a lecturer and an examination candidate is that the lecturer can choose his subject while the candidate has no choice, but must do his best with the questions that are thrust before him. Many prefer the relative liberty of the lecturer, for not only can he choose his subject but he can avoid or circumvent particular difficulties, turn to text-books for enlightenment, and when the mind tires, put aside his notes and books and walk downhill to the nearest house of refreshment.

It would be cruel to labour these distinctions and I have said enough, I think, to explain the limitation of this address. I do not intend to illuminate a great number of executorship and taxation perplexities or to analyse fine points of theory, but to review and discuss a few practical difficulties that are common to students and to young practitioners.

COLLECTION OF INCOME-TAX

Have you considered the convenience to the Inland Revenue of our system of collection at source? The income-tax relating to assessments under Schedules A, C and E is largely collected at source by imposing on the person making payments of rent, interest and salaries the obligation to deduct and account for the tax appropriate to those payments. This is on the sound principle that it is easier to exact tax by withholding it at source than to extract tax by withdrawing it from the pocket.

You will find that the same principle emerges, on occasions, in the collection of professional fees in that it is usually easier to recoup fees out of an income-tax repayment claim or out of the proceeds in a liquidator's hands, than to demand fees by sending out a note of your charges.

PAYMENTS OF INTEREST

The doctrine of vicarious collection is well illustrated in Rules 19 and 21 of the General Rules applicable to all Schedules. Much of this address will centre on these rules so that we must first attempt to understand their scope and effect.

In general, both rules entitle a person making a payment of interest to deduct income-tax therefrom at the time he makes the payment thereby ensuring that the person to whom the interest is due suffers tax by receiving a net sum that has been subjected to the deduction of income-tax. The Revenue must then make some provision whereby this retained income-tax is accounted for or otherwise handed over to the Collector of Taxes.

Let us imagine a small company engaged in the grocery trade and assume that the gross profit for the year ended March 31st, 1951, amounted to £500 out of which the company paid overheads of £200 and interest at 5 per cent on a loan of £1,000, absorbing gross before deduction of income-tax, £50. The company's net profit, before provision for income-tax, would amount to £250, namely, the difference between the gross profit of £500 on the one side and the overheads and gross interest totalling to £250 on the other side. The company can be assumed to have enjoyed a run of recurring annual net profits in excess of £50 a year and the interest would therefore be paid wholly out of taxable income and be subject to deduction of income-tax at the standard rate for the year in which the interest was accruing due. Thereby, as explained above, the person who is due to receive the interest is taxed thereon at source, and we must next inquire how the payer is made to account for the income-tax that he holds as a sort of custodian trustee.

Tax Deducted at Source

The Finance Acts thoughtfully provide machinery for ensuring that the income-tax retained by companies from payments of interest etc. made under deduction of tax is accounted for to the Inland Revenue. Rule 3 of the Rules applicable to Cases I and II of Schedule D states that in computing the amount of the profits to be charged, no sum shall be deducted in respect of any annual interest etc. payable out of the profits or gains.

You will understand the practical effect of this rule by relating it to figures and we cannot do better than return to the example of the grocery business. That business showed a net commercial profit of £250 after a deduction of £50 in respect of interest on a loan. The profit chargeable to income-tax under Case I of Schedule D will, however, be larger because Rule 3 prohibits the deduction of annual interest; the £50 charged in respect of interest must therefore be 'added back' and the assessable profit will be increased from £250 to £300. Thereby the gross interest is subjected to income-tax and the payer made to account for the income-tax that he deducted at the time of payment.

Similar considerations would apply to an investment company. Imagine that such a company has only one source of income, namely, interest on a holding of debentures, and that in the year ended

An address delivered to the Northern Chartered Accountant Students' Society on December 10th, 1951.

March 31st, 1951, that interest amounted gross, before deduction of income-tax, to, say, £300. Assume further that the expenses comprised £250 for general management and £50 representing interest at 5 per cent per annum on a loan of £1,000.

In such circumstances, the interest would be paid under deduction of tax but the gross sum, namely £50, would not rank as a management expense and the company would therefore indirectly account to the Revenue for the income-tax appropriate to the £50 of gross interest.

Profits or Gains brought into Charge

Next let us review payments of interest etc. made otherwise than out of profits or gains brought into charge, always bearing in mind that the expression 'profits or gains brought into charge' refers to taxable profits and not necessarily to actual or accountancy profits. Let us take a very simple example.

A company has traded for many years, but by a miracle of book-keeping or fortune the overhead expenses have consistently and exactly equalled the income so that much to the disappointment of shareholders and the Inland Revenue the net commercial profits and the net assessment under Schedule D have coincided and resulted in the negligible figure of one penny. Such uneventful years continued up to the accounting year ended on March 31st, 1950, but on April 1st, 1950, the company engaged a new accountant, a young man with spectacles and a rolled umbrella who somewhat self-consciously added the initials 'A.C.A.' after his signature.

Borrowing on Debentures

This young man diagnosed a shortage of working capital and persuaded the directors to borrow a sum of £100,000 at 5 per cent on the security of a debenture. Unfortunately, whether because of a trading recess or a new method in valuing the closing stocks, the year ended with a net loss of £5,000 and the directors were quick to notice that this loss exactly equalled the interest for one year on the £100,000, 5 per cent debentures.

The directors were of opinion that there could be no liability to income-tax for the fiscal year 1950–51. They urged that no government, whatever its leanings, would have devised legislation to make a loss the subject of taxation.

The young accountant held different views: he explained that the interest was not a permissible deduction under the rules governing assessments under Schedule D and that the interest of £5,000 must be added back to produce the familiar equilibrium of neither profit nor loss; at this stage all the directors nodded agreement.

The young man then reminded them that the interest on the debentures had been paid not gross, but net, and that the company were therefore holding income-tax that should morally be sent to the Collector of Taxes. Some of the directors were not strongly influenced by this appeal and one was heard to remark that 'a similar argument might be held against the Government in regard to post-war credits'.

The accountant then opened his volume of the Income Tax Acts and read aloud from Section 21 of the General Rules applicable to all Schedules to the effect that where interest etc. is not payable out of taxable profits, then the payer of the interest shall deduct tax out of such a payment and must account to the Revenue for that tax. Further, such tax is assessable upon the payer of the interest.

The authority was conclusive and the accountant emphasized that the purpose of the section was to ensure that the Revenue always received the income-tax collected on its behalf to the extent that such income-tax had not been otherwise accounted for in that particular fiscal year.

A Few Words of Comfort

He ended with a few words of comfort. The assessment under Rule 21 was the machinery for accounting for income-tax held as custodian trustee on behalf of the Revenue, but in this instance, the adding back of the interest in the Schedule D assessment, seemingly deprived the company of relief on the loss of £5,000. The legislature had, however, made provision for such hardship by Section 19 of the Finance Act, 1928. This section enacted that where a person has been assessed to tax under Rule 21 in respect of a payment made for the purpose of a trade, then the amount on which tax has been paid shall be treated as though it were a loss sustained in that trade and relief in respect thereof shall be allowed in computing that person's liability to tax for the six years following the said year of assessment.

The effect of adding back interest in a computation is to make sure that the interest payment is added to profit and that thereby income-tax is accounted for on the tax appropriate to that interest. A Rule 21 assessment presupposes that there is no assessment on profits under Schedule D and the Rule creates a notional assessment sufficient to cover the interest paid otherwise than out of profits or gains brought into charge.

The assessment is, however, notional, and the company has in fact sustained a loss: the Legislature recognizes that the Rule creates an assessment only for its convenience, and that is why it makes provision for the Rule 21 assessment to be regarded as a loss available for carrying forward against profits earned in the six subsequent years.

An Associated Company

The accountant's worries were not confined to the trading company. He was also responsible for the books of an associated investment company. This company had been formed with the object of holding investments but its subscribed capital was only £100 and this capital was represented by cash on deposit account. One of the directors thought the company should be more active and should seek to make money on what he referred to as 'the turn'. Accordingly, he

advanced the company £1,000 at 5 per cent per annum secured by a floating charge on all of the company's assets and supported by the personal guarantees of all his co-directors.

Regrettably, the yield from ordinary investments declined to a fraction below 5 per cent and the board decided to keep the £1,000 on current account until the markets should show a favourable turn. Their patience was not rewarded and the market remained stubbornly unresponsive to outside calamities and rumours.

The accounts for the year ended March 31st, 1951, were prepared and showed a loss of £50 described as interest at the rate of 5 per cent per annum on a loan from a director. Fortunately there was a credit balance of exactly that sum on revenue account originating from accumulations of deposit interest, so the director felt no uneasiness in accepting a cheque for net interest on his loan.

The accountant set up the income-tax computation. First, he added back the loan interest of £50 and found that there then resulted neither profit nor loss. He recollected, however, that interest had been paid during the year in respect of that year and it was apparent that the interest had not been paid out of income brought into assessment in that year: accordingly the £50 interest was the subject of an assessment under Rule 21. Unfortunately, such an assessment is not available for carrying forward as a loss – that privilege is reserved for persons carrying on trades and professions assessable to income-tax under Cases I and II of Schedule D – and as in this instance no concessions could be invoked, the company forfeited taxation reliefs on a sum of £50.

I should add that the young accountant, of his own accord, left business and returned to the quiet of a professional office.

THE RECEIPT OF INTEREST

I said that the young accountant left of his own accord. That is only partly true because the move was recommended, in fact insisted upon, by his doctor. It seemed the young man had developed unusual symptoms that suggested the approach of a nervous breakdown. He was in the habit, at the most inappropriate hours, of taking coins from his pocket and using them as symbols or tokens of imaginary payments of interest.

At a board meeting or at an interview he would unexpectedly take pennies from his pocket, push them across the table and say aloud: 'I pay A. ten pounds interest'. He would then stretch out his hand and sweep half of the coins into his drawer saying, 'I should have deducted tax at source', and continue the pantomime by leaning forward and drawing the remainder of the coins into the drawer with some such phrase as 'Due to the Inland Revenue under Rule 21.' He would then stare at the empty table, look at the coins in the drawer and, standing up, confront his audience with perplexity, asking, 'Why did the Revenue get the whole?' Why indeed?

Trustee of an Estate

However, there was no ill-will between him and the directors of the company and one morning one of these directors called at his office to obtain professional advice. This director was a trustee of an estate. The estate comprised a single investment, namely, a holding of £100,000 5 per cent debentures in a trading company. For many years the company had prospered and paid the interest with regularity thus enabling the trustees to discharge their prior commitment, quaintly worded as

> 'an annuity of £500 a year to my nephew Cuthbert for as long as he is engaged in studying for, but has not passed, the Final examination of a professional body of accountants'.

The testatrix was perhaps over-ambitious in importing the word 'Final' into her directions, for Cuthbert had reached 55 years of age and was colloquially referred to as 'A hardy biannual' by the invigilators at the Intermediate examination.

You will observe that the income of the trust was £5,000 a year, originating from the holding of debentures, and that after payment of £500 to Cuthbert the balance of net income, subject to expenses, was available for the beneficiaries.

Up to March 31st, 1948, the trustees received the debenture interest in full but no interest was received during the two years ended March 31st, 1950, though in each of those years the full annuity was paid to Cuthbert out of accumulations of past income. On March 31st, 1951, the trustees received from the company a cheque representing net interest on the debentures in respect of the three years ended on that date.

I think that you will be able to visualize the receipts and payments in the cash book, but to impress the figures on your minds I will repeat them. First, the receipts. Nothing in the two years ended March 31st, 1950, but in the year ended March 31st, 1951, a receipt representing interest for the three years ended March 31st, 1951. The payments are easy to visualize in that the full annuity was paid on the due dates in each of the three years ended March 31st, 1951.

The trustees feared that the Revenue would regard the payments of annuity in each of the years ended March 31st, 1949 and 1950, as made otherwise than out of taxable profits and gains brought into charge and therefore as subjects of assessment under Rule 21. Such assessments, assuming them to be competent, would have been in conflict with equity in that the annuity payments were in fact made out of past accumulations of income and in the books of the trust the arrears of interest had been allocated to the years to which they belonged and had provided ample cover for the annuity charges.

If assessments under Rule 21 were competent then the burden would presumedly fall on the life tenants and further reduce their income. How, in justice, could one hold that the annuity was paid out of capital?

The Young Accountant's Views

The young accountant was asked for his views. It was at once apparent that the problem interested him for he took pennies from his pocket, pushed them some way across his desk and then with a practised hand swept half of the coins back into his drawer. While describing the operation as 'a retention of income-tax at source'. He then paused and asked whether the company had paid the arrears of interest out of profits brought into charge. He was assured that in the year ended March 31st, 1951, the company had enjoyed the receipt of a large fortuitous dividend income and that the interest on the debentures had therefore been made under the provisions of Rule 19. The director also agreed that in conformity with that Rule the income-tax deductible from the interest was the rate in force during the period through which the particular payment was accruing due; though in this instance that consideration was not immediately relevant because the standard rate had been 9*s* in the pound throughout the period of accrual.

The young accountant was happy to hear these facts. He leaned back in his chair, put the tips of his fingers together and told the trustee that the interest would be referred to each of the years in which annual instalments were receivable and that therefore in each of the years ended March 31st, 1949 and 1950, there would be a notional fund of taxed interest out of which the payments of annuity would be deemed to have been made and that accordingly there could be no assessments under Rule 21 for the years 1948–49 and 1949–50.

The authority for this opinion is not conclusive but it is to be inferred from a careful reading of Section 39 (2) of the Finance Act, 1927, and it is supported by *obiter dicta* in the case of *Lambe v. C.I.R.* (12 A.T.C. 398) and it accords with the practice of the Revenue.

Section 39 (2) of the Finance Act, 1927, provides that

> 'Income which is chargeable with income-tax by way of deduction at the standard rate in force for any year shall be deemed to be income of that year. . . .'

and you will recollect that Rule 19 authorizes the deduction of income-tax not at the rate in force at the time of payment but at the rate or rates of tax in force during the period through which the said payment was accruing due and Section 39 (1) of the Finance Act, 1927, comes to even closer grips by providing for a deduction

> 'at the standard rate for the year in which the amount payable becomes due'

thus authorizing the inclusion of the income in the total income of the year in which it becomes due instead of the year in which it was paid. In short, if a creditor for loan interest receives in one year sums which referred to several years and the payment came under General Rule 19, then the sums received would be, for all tax purposes, income of the years in which each separate year's interest became due. Mr Justice Finlay put this concisely in the case of *Lambe v. C.I.R.*

> '. . . the payments will be referred to each of the years in which they were receivable and he will be liable to assessments in respect of each of those years'.

A Different Outcome

The outcome would have been different and much less favourable to the trustees if the investment company had not paid the interest out of profits and gains brought into charge, for then the interest would have been paid under the provisions of Rule 21 and there would have been an imposition to deduct tax at the rate in force at the date of payment. Such a deduction would have identified the whole payment covering three years with the year in which it was paid and for assessment purposes made it the income of the year 1950–51.

In such circumstances there are no provisions for spreading back income into the year to which it relates and in this example the annuity payments in 1948–49 and 1949–50 would have been paid otherwise than out of chargeable profits and they would therefore have been subjected to assessments under Rule 21. In this instance that statement is not wholly accurate because trustees can apply for an extra-statutory concession whereby if hardship would be caused, an allowance is made in the case of a trust or other non-trading institution paying interest etc. at the due date out of the taxed income of past years.

You will recollect that the trust referred to in this example did, in fact, pay the annuity on the due dates out of past accumulations of income and that this concession would appear to be operative. However, circumstances do not often call for the application of this concession and you will be weary of the long discussion on interest and annuity payments.

A GENERAL GUIDE TO RULE 21

The time has come to attempt the formulation of some rule of thumb guide to help students and even young qualified men.

Whenever a question on taxation imports the payment of interest, suspect that it requires the computation of an assessment under Rule 21. Do not confuse your thought by undue hurry but on a piece of scrap paper list in one column all income received under deduction of tax in the particular year and also any assessments under Schedules A, B, D (or in personal computations Schedule E) that relate to that year.

Next, list in a separate column all payments of interest, annuities and other annual charges made in that year. Add up both columns and discover whether the payments column exceeds the income column: if it does, then the excess is the amount of the Rule 21 assessment for that year.

That very generalized summary is sufficient for examination candidates but in practice there will often be greater complexity and variety and one should not accept a Rule 21 assessment – particularly

when relating to investment companies and trusts – without reference to the *Lambe* case and the concessions that are elaborated in the most authoritative text-books.

DIRECTORS' EXPENSES ALLOWANCE

There was once a company director, Mr R. T., not to be confused with his less distinguished brother, Mr F. T. This director was a large man of somewhat incoherent speech and with a sagging face the colour of a ripe plum. He lived in Kensington and enjoyed the immense income – mostly unearned – of £25,000 a year.

In 1950 he was offered a directorship in a wine merchanting business on the South Coast. The duties were not onerous: they involved attendance at the company's annual dinner in London and attendance at the monthly board meetings at the South Coast resort, thoughtfully arranged to start at midday.

The remuneration was £50 a year and after payment of income-tax and sur-tax this yielded him only fifty sixpences or a net sum of £1 5*s*. However, the company paid his first-class return fare, the business involved few worries and the food and drink were liberal in quantity and excellent in quality.

One day the company's accountants wrote to him and explained that he was liable to assessment under Schedule E on the sums paid by the wine company for his railway tickets between London and the South Coast, amounting in a full year to £30. The writer of the letter – a man of more knowledge than tact – had taken the trouble of estimating the income- and sur-tax attaching to this notional remuneration and showed that the total tax amounted to exactly £29 5*s*.

It was at once apparent to the director that if the accountants were correct – and this he could not believe – then he would be out of pocket by continuing in office. His net retainable remuneration amounted to £1 5*s* and the taxes attaching to his alleged benefit to £29 5*s*.

He at once visited his own accountant. This young man explained that the Finance Act, 1948, had made a frontal attack on expenses, allowances, benefits and other facilities provided for directors and that the Act compelled a company to make a return of all such expenses and benefits and further insisted that such expenses and benefits were to be regarded as remuneration and assessed to tax under Schedule E on the recipient. Thereafter the recipient could, if he was able to assemble proof, submit a claim under the restrictive phraseology of Rule 9 of Schedule E for relief in respect of expenses 'wholly, exclusively and necessarily incurred in the performance of the duties of his office'.

The effect of the Act was therefore to put the burden of proof on to the directors who benefited, or were alleged to benefit, from the expenditure incurred on their behalf by the company.

Before his Duties Began

Mr R. T. was of opinion that the railway fare was wholly, exclusively and necessarily incurred in the performance of his duties as a director of the company and he posed the ingenuous question: 'How can I act unless I am conveyed to the site?' His accountant agreed but told him that the railway journey was not an ingredient of his work but an event that occurred before he started his work. He might choose to live at Edinburgh rather than in London but though his journey would then be longer, the expense would not be incurred 'in the performance of the duties of his office' but before he started to perform these duties.

The young accountant mentioned that his own home was in the country and over twenty-five miles from his town office, but that he was unable to claim relief on the cost of his season ticket because the journey was undertaken before he entered into his office duties. He added that if a company had two or more places of business and it was necessary for a director to visit these places in the course of his duties, then the travelling costs would be permissible deductions within Rule 9 of Schedule E because such costs would then necessarily be incurred in the performance of the duties of the office.

A Branch Office Opened

Within six months, the wine merchanting business opened a shop, warehouse and branch office in Kensington and thereafter Mr R. T. travelled between the company's two places of business and the Inspector of Taxes granted a dispensation exempting the reimbursement of travelling expenses from assessment to income-tax in the hands of Mr R. T.

Mr R. T. benefited from the expansion of the business – not in cash, because despite increased responsibilities his remuneration remained unaltered – but in kind. The Kensington office opened a canteen at which a delectable lunch, inclusive of wines, was served each day at noon. The proviso to Section 39 of the Finance Act, 1948, exempts from any charge to income-tax under Schedule E

> 'the expenses incurred by a body corporate in or in connexion with the provision of meals in any canteen in which meals are provided for the staff generally'.

In this instance the midday meal was provided for the whole of the staff in a large upstairs room and only a velvet curtain separated the clerical and executive staff from the three directors. The board held, and this was not disputed, that a meal similar in a few ingredients to that provided for the directors was served in the same room at the same hour to the staff generally and that therefore the cost of the meal was within the protection of the proviso to Section 39 and accordingly not a taxable benefit. If anyone was so ill-mannered and pedantic as to urge that the meals served to the directors differed from those eaten by the staff, Mr R. T. became petulant and decried what he termed 'hair-splitting'. 'After all,' he was heard to reply, 'the difference between the two meals is merely one of quantity and only a legalistic or envious mind would wish to labour fine distinctions.'

GIFTS *INTER VIVOS* AND MARGINAL RELIEF

Mr R. T. had a middle-aged nephew called Cuthbert, and you will recollect that the income of this nephew and student was an annuity of £500. Years of study had enriched Cuthbert's mind but he held no certificates of knowledge entitling him to make any charges for his advice, and additions to his income were dependent on the generosity of his relatives.

One day the pages of his book on executorship accounts held his full attention and he studied with unaccustomed attention the paragraphs on gifts *inter vivos* and marginal relief. He then put his study notes in his pocket, adjusted his bowler to a professional tilt and called on his uncle. He told his uncle that he wanted to buy a second-hand car costing about £500 and asked whether he could look to uncle's generosity for a loan or gift of about that sum.

Mr R. T. was not co-operative and explained that sur-tax sucked up so much of his income that he had little over for gifts, that he was growing old and must conserve capital for his young son, Captain M. T., and that Cuthbert should hasten to pass his exams and so become independent of the generosity of his relations. He ended by offering his nephew the coins in his pocket which amounted to 15*s*.

Cuthbert thanked his uncle and said that he did not wish to deprive him of the convenience of loose change but that instead he would be willing to accept something of smaller value to his uncle, namely, a transfer of debentures in an investment company valued at £500. Cuthbert produced working papers which showed that the interest on these debentures, before deduction of income-tax, amounted to £25 but he reminded his uncle that sur-tax and income-tax together took £24 7*s* 6*d* of this interest so that the income enjoyed by uncle amounted to only 12*s* 6*d* a year. This, said Cuthbert, was less than the 15*s* in uncle's pocket.

A Schedule

Cuthbert then turned to his notes and showed his uncle a schedule headed 'Mr R. T.: *Pro forma* estate duty account'. The schedule contained a complete list of his uncle's investments, properties, bank balances and other assets and an estimate of his liabilities including provision for reasonable funeral expenses. The total amounted to £1,000,510. Cuthbert's confidence increased and he led his uncle to a chair before coming to the climax of his figures. He then explained that the rate of duty attaching to an estate valued at between £750,000 and £1 million was 75 per cent but that the rate of duty on estates exceeding £1 million was 80 per cent.

It was obvious that at each stage of growth the higher rate of duty applied to the whole estate and that without some form of marginal relief there would be hardship when the value of an estate entered into a higher rate of charge. The Finance Act, 1914, recognized and remedied this inequity by allowing the executor to regard the value of the estate as equal to the immediately preceding limit of value and to pay duty on that value providing that in addition the executor should account for the margin or excess of true value over notional value.

Thus, Cuthbert indicated that his uncle's estate would be subjected to duty on a value of £1 million at the rate applicable to that sum, namely, 75 per cent, on condition that the estate forfeited any excess over £1 million. Therefore, within limits, it did not matter whether the excess was say £1 or £1,000 as such excess would be skimmed off and handed to the Inland Revenue.

In such circumstances, urged Cuthbert, why not hand £500 of the excess to a needy relative rather than a greedy official? Mr R. T. could offer no resistance, and £500, being part of the proceeds from the sale of debentures, was sent to Cuthbert and within a few days invested by him in a second-hand car.

Cuthbert was careful to limit the gift to £500 because in normal circumstances a gift in excess of that sum would be a subject of death duty in the hands of the recipient in the event of uncle's death within five years of the date of the gift. Cuthbert had no wish to be charged at the rate of 75 per cent or even 80 per cent on an asset or benefit that at the date of uncle's death he might no longer enjoy.

CONCLUSION

This address has attempted to illuminate a few perplexities by, as it were, throwing them on to a screen and there embodying different sides of a problem in imaginary characters.

That is the function of the illustrator but not of the practitioner or student. You will often be confronted with new problems, more complex than those discussed in this paper, and it will be your task to solve them to the best of your ability. What aids can you invoke? Firstly, good text-books. It is always advisable to seek out and to buy the very best books that you can afford and to ensure by the regular purchase of supplements or new additions that those books are up to date. To possess a good text-book is to have by your side the services of an acknowledged expert skilled in elucidating tortuous sections and in clarifying involved wording. Learn to obtain the best use of a book by understanding its index and where necessary, by following up the cases and sections to which the text may refer.

Secondly, recognize that you cannot become an expert in every branch of taxation and executorship work. Most practitioners, and all students, must devote their time to a wide variety of subjects and it is therefore natural that experience in the remoter or more technical fields will be limited. You can obtain a lot of help, without any loss of prestige, by discussing difficulties or unusual points with the Inspector of Taxes or with a colleague or a fellow practitioner. Our purpose is to serve our clients and in that endeavour we shall encounter perplexities. I do not think you would want it otherwise, for much of the joy in our work results from confronting and overcoming difficulties.

WEEKLY NOTES

Incorporated Accountants' Examinations

The Final examination of the Society of Incorporated Accountants and Auditors is now divided into two parts, both of which must be completed by candidates before they are eligible to apply for membership of the Society. In the November 1951 Final examination, honours were awarded to six candidates, the First Certificate of Merit and First Prize being awarded to Mr Ernest William Barnes, of Bristol. The Second Certificate of Merit and Second Prize were awarded to Mr Derek Mather, of Liverpool; the Third Certificate of Merit to Mr Kenneth Charles Reeve, London; the Fourth Certificate of Merit to Mr Kenneth George Davis, London; the Fifth Certificate of Merit to Mr Francis Edwin William Swann, Nottingham; and the Sixth Certificate of Merit to Mr Eric Leonardi, also of Nottingham.

In the Intermediate examination, honours were awarded to nine candidates. The First Place Certificate and First Prize were gained by Mr Michael Henry Wheaton, of Port Talbot; the Second Place Certificate and Second Prize by Mr Hubert Theodore Adams, of Northampton; Third Place Certificate and Third Prize by Mr Prestonji Mancherji Narielvala, Calcutta; Fourth Place Certificate by Mr John Desmond Seed, Nottingham; Fifth Place Certificate by Mr William Bunn, Newcastle-on-Tyne; Sixth Place Certificate by Mr John Michael Pitman, London; Seventh Place Certificate by Mr John Derrik Hender, Coventry; Eighth Place Certificate by Mr Salil Kumar Mitra, Calcutta, and the Ninth Place Certificate by Mr Douglas Walter Sainty Hains, Lincoln.

A list of the successful candidates in the Final (Parts I and II) examination, and in the Intermediate examination, together with a complete summary of the results, appear elsewhere in this issue.

New Companies in 1951

In the table of company registrations in England and Wales in 1951[1], reproduced on page 179, it will be observed that the exceptionally large amount of nominal capital of new public companies is almost entirely attributable to investment, finance and banking companies. Of the £22,025,000, £17 million is accounted for by the Australia and New Zealand Bank and £4½ million by the Bank of Australasia. One of the new private companies in this class is Samuel Montague & Co.

The six most active classes were food, engineering, building, clothing, land and properties, and distribution.

Registration of Business Names in 1951

During the year ended December 31st, 1951, there were 28,750 new registrations under the Registration of Business Names Act, 1916, bringing the number on the register to 611,230. During 1951, twelve prosecutions were instituted by the Board of Trade for non-compliance with the provisions of the Act. In nine of these prosecutions convictions were obtained.

Income Tax Consolidation

The Income Tax Consolidation Bill has completed its passage through the House of Lords after being amended in accordance with the report of a committee of both Houses. The amendments relate in general to the more obscure provisions and reflect the committee's anxiety to see that the new Act introduces no amendment of existing law, either expressly or by implication. The committee's report and its proceedings, which took place in November and December, have been published.[2] The official hope that the new Act will be in force for the year 1952–53 seems to have a good prospect of realization, provided no difficulties arise in the House of Commons.

Business Efficiency Exhibition

A special effort is being made at the Business Efficiency Exhibition which opens at Birmingham next week to attract the top representatives in industry. There will be every effort made as well, of course, to do business with those who come from trade and commerce, but there is a certain significance about the choice of the Birmingham areas as a location since the concentration of industry in that zone must be about the heaviest in the country.

Two other general points may be made in passing. The exhibition is being opened by the Minister of Labour, which no doubt gives it a kind of official blessing from the point of view of raising productivity in the office. The other is that this exhibition probably represents stage two of a cycle in which one exhibition will be held in London one year and another the following year in a large business centre in the Provinces, returning to London the next year, and so on.

The large majority of firms in the office equipment industry is exhibiting. To judge from the information available immediately before the exhibition is opened, there is nothing of revolutionary import to be revealed (as there will be perhaps when the first fully commercial electronic punched-card system comes on to the British market). But there is a good deal of progress to be seen nevertheless. Designs are improving. Many companies are offering machines with slightly better performances. Others have pushed technical developments and gadgets a stage further. Some of the equipment shown is having its first viewing outside the London area, where it was on show last June.

In all, equipment worth many hundreds of thousands of pounds will fill the 33,000 square feet of

[1] Compiled by Jordan & Sons, Ltd, Company Registration Agents, Chancery Lane, WC2.

[2] H.M.S.O. 2s 6d.

floor space at the display, and among the interesting exhibits will be microfilming units which will photograph 24,000 cheques an hour and reproduce both sides of a document simultaneously; a device for counting and endorsing bank-notes at 50,000 an hour; chairs which exercise the body and rest it simultaneously as one wrestles with mental problems; calculating machines and electric typewriters.

One point should be borne in mind. The office equipment industry has grown in the last twenty years more rapidly perhaps than any other industry. In that period it has put up for the inspection of industry, not least for the accounting profession, a wide range of office aids. There may be two opinions about the suitability of a particular type of equipment for the various forms of record-keeping in a firm, but there is much to be said for industry's – and especially its accounting departments' – taking trouble to follow the development of this young and thriving industry.

Retail Trade in December

Much attention is naturally being focussed this year on the trend of retail trade in the three months November to January. On the strength of the statistics of stocks and sales for that period, will come the final analysis of how far the public have been refraining from buying in the shops and what that has meant to stocks with wholesalers and retailers. Behind that again lies the prospect for better trade conditions for several large industries with a major stake in the retail market in this country.

The December results are somewhat tantalizing. They suggest that there was a good deal of improvement in shop turnover during December, but that it will not be possible to tell whether this was a change of trend or a mere temporary halt in poor trading experience, caused by the Christmas shopping rush.

One tell-tale feature of the December trade results, as recorded by the Board of Trade statistics, was the big improvement in sales of boys' and men's wear – a fact which suggests that Christmas shopping was used on a fairly large scale to re-equip masculine wardrobes. It may be recalled that this category of clothing made a particularly poor showing in the autumn. Sales of furniture and dress materials were still below those of December 1950 but showed an improved trend. Stocks held at the end of the month in most categories of goods were much higher than in December the year before.

Total sales of non-food merchandise were 8 per cent higher for the month than for the same period a year before. A good deal of the high figure thus recorded (December 1950 was itself a good month) was due to higher prices. In fact it may be found in due course that the increase is more than accounted for by higher prices, leaving the volume of sales lower on the year.

Lower Steel Output

Steel production started 1952 at a level, measured on an annual basis, lower than at the same time a year ago. January steel ingot production was at an annual rate of 15·2 million tons, compared with 15·9 million tons in January 1951. Compared with December, the figure was slightly higher, due to the impact of holidays on the last month of the year.

Pig-iron output was better in January, however, than either in January a year ago or in December. Since it is on a better output of pig-iron that higher steel ingot production must largely depend, this result for the first month of the year is rather more encouraging than the recent trend of output in steel itself.

Transport Receipts in 1951

British Transport Commission's income was £60 million higher last year than in the year before. Total revenue in 1951 was just over £600 million. Despite this, however, it is expected that the Commission will have ended up the year with a deficit of around £15 million. This will be slightly more, if it comes about, than the deficit for the previous year. Basically, the financial trouble is that the railways cannot secure sufficient increases in revenue quickly enough to catch up with rising expenditure.

Railway receipts reflected the higher freight charges which were in operation during 1951, and there were increased takings in all of the other services of the Commission. The income from British Railways went up from £336 million to £366 million. The next largest advance was recorded by road haulage – from £62 million to £77 million. There is nothing to suggest so far that the 10 per cent rise in the level of freight charges seriously reduced the volume of traffic on the railways. All sections of merchandise receipts showed an advance. Passenger receipts were also up. In this case there is an increase to be absorbed by the travelling public early in 1952. As mentioned above, this tardy increase – based on an examination of conditions early last year – is bound to be less of a stopgap than was hoped at the time, for, in the interim, costs have not stayed still for the Commission.

Production in 1951

Production in 1951 is estimated to have been about 3 per cent above the level of 1950. This may be compared with an estimated increase made at the time of the Economic Survey last March of 4 per cent. This is a provisional calculation by the Central Statistical Office. The index for November is put at 153 compared with 151 for October.

If the provisional figure for December is found to be about right, this increase will be considerably lower than the annual rate of increase recorded for each previous post-war year. It will be interesting to see, when detailed statistics are available, to what extent the decline in the rate of improvement was due to a worsening in the raw materials position, and how far to such factors as the buyers' strike in the shops which was already beginning to affect the employment position in some industries in the autumn of last year.

REVIEWS

Dicksee's Auditing
Seventeenth Edition
by Brian Magee, B.Com., F.C.A.

(Gee & Co (Publishers) Ltd, London. 52*s* 6*d* net)

Dicksee needs no introduction to accountants; it is a standard work which no auditor can safely disregard. The task facing its new editor was a heavy one for in the eleven years which have elapsed since the last edition was published, there has been a considerable amount of new legislation affecting auditors, not to mention the series of very valuable recommendations on accounting principles issued by the Institute. Mr Magee who is a lecturer on the subject has discharged this task very creditably, adding a new chapter on group accounts. The current controversial 'accounting for inflation' problem is stated, though the author has wisely refrained from committing himself to a solution. A valuable part of the book is the 289-page appendix containing full reports, not otherwise easily obtainable, of decided cases touching auditors. A text of 352 pages, and 220 pages of extracts from Statutes and Rules, bring the book to a most comprehensive volume of nearly 900 pages.

The Sale of Goods
by Clive M. Schmitthoff, LL.M.(Lond.), LL.D.(Berl.), Barrister-at-Law

(Stevens & Sons Ltd, London. 35*s* net)

This book is the first volume of an important new series entitled 'Business Law and Administration', of which the author of the present work is the general editor. As Doctor Schmitthoff tells us in his preface, the aim of business law is to relate legal problems pertaining to business matters to their economic and social environment – a functional approach as opposed to the mere stating of positive rules of law. This book contains a detailed commentary on the Sale of Goods Act, 1893, and a brief account of the general principles of the law of sale admirably annotated so as to link it up with the commentary. Appendices contain the texts of four other Acts relating to the law of sale, with notes on each.

The Leasehold Property (Temporary Provisions Act) Act, 1951
by T. J. Sophian, Barrister-at-Law, and G. E. Llewellyn Thomas, Barrister-at-Law

(Sir Isaac Pitman & Sons Ltd, London. 12*s* 6*d* net)

The authors have set out the Act in full, adding copious notes after each section to show its genesis and object. The relevant provisions of the Landlord and Tenant Act, 1927, and the terms of the Leasehold Property (Temporary Provisions) (Shops) Regulations, 1951, are given in an appendix, and there is a short but adequate index.

Key to Income Tax and Sur Tax
Thirty-third (1951–52) Edition
Edited by Ronald Staples

(Taxation Publishing Co Ltd, London, 7*s* 6*d* net, 7*s* 9*d* post free)

It is surprising to find how much information can be got into little more than 200 pages and how ingeniously it can be arranged and indexed so that the particular point one is seeking can be found in the minimum possible time. This book contains much that one looks for in vain in longer and much more expensive text-books. Many of the summaries of knotty subjects are models of lucid conciseness and the general approach is entirely practical.

The Elements of Income Tax Law
by C. N. Beattie, LL.B., Barrister-at-Law

(Stevens & Sons Ltd, London. 30*s* net)

While most of the many books on the subject of income-tax are written either for accountants, for accountancy students, or for laymen, this book is written expressly for law students; that is to say future solicitors, for income-tax is not included in the subjects of the Bar examinations. Accordingly the author has concentrated on legal principles rather than on the arithmetical working of examples, and in doing so has produced a readable and helpful book. The authorities are relegated to footnotes, and few examples are given so that the reader has the benefit of a continuous text. It is perhaps unfortunate that the book has appeared just before the Income Tax Acts are to be consolidated.

SHORTER NOTICE

SUPPLEMENT TO VALUATION FOR COMPENSATION AND DEVELOPMENT CHARGES, by Ronald Collier, F.S.I., F.A.I. Reprinted from Butterworth's Annotated Legislation Service. (Butterworth & Co (Publishers) Ltd, London. Main work and Supplement, 32*s* 6*d* net; Supplement alone, 15*s* net.) This supplement is divided into five parts. Part I is a noter-up to the main volume, in conjunction with which it should be read. Part II consists of Division II of the main volume rewritten in the light of the alterations in the later General Development Charge Exemptions Regulations. The Planning Payments (War Damage) Scheme, 1949, is dealt with in Part III and 'Land held with other land' in Part IV; the need to deal with the latter two subjects is, in fact, the main reason for the supplement.

WOOLLEY'S HANDBOOK ON THE DEATH DUTIES. Supplement to the Seventh Edition, by John Munkman. (Solicitors' Law Stationery Society Ltd, London. 2*s* net.) This supplement of 12 pages brings the seventh edition of *Woolley* up to October 1951. Three pages are devoted to extra-statutory concessions in force at December 31st, 1949.

FINANCE AND COMMERCE

Competition from new issues is again a decided factor in stock markets. Substantial new operations by companies such as General Electric and Boot's Pure Drug, as well as potential further colonial borrowing, to follow up the success of the Rhodesian loan, are bidding for the restricted volume of investment funds available to stock markets.

Recording History

Financial history is recorded in the accounts of the Midland Bank Ltd, whose balance sheet we reproduce this week. To avoid invidious distinction, the same remark applies to the accounts of the other deposit banks which make up the country's banking system. The whole series of bank accounts is worth study, and the annual reviews, by the respective bank chairmen, of banking, finance and economics, provide essential reading – invaluable especially for students.

The 1951 accounts reflect the measures taken by the new Government to counter inflation through restriction of bank credit. This was effected in the November £1,000 million funding operation which turned three-months' Treasury bills within the liquid assets group into assets classified in banking practice as investments. This banking practice, it is important to remember, is the banks' accumulated experience over more than a century and a half in the early years of which, bankers learned their business in the hard school of experience – and failure. The fittest survived; the weak 'closed their doors'.

Monetary Policy

Side by side with the curtailment of the banks' cash assets by the funding operation, went a change in the official monetary policy which had regulated the supply of credit to the money market. Temporary stringency in the short-loan market must now be covered by recourse to the Bank of England for loans at 2 per cent for a minimum of a week instead of being relieved by official purchases of bills at close to market rates. This, however, is an aspect of the situation that affects the discount houses and is not directly reflected in the banking balance sheets.

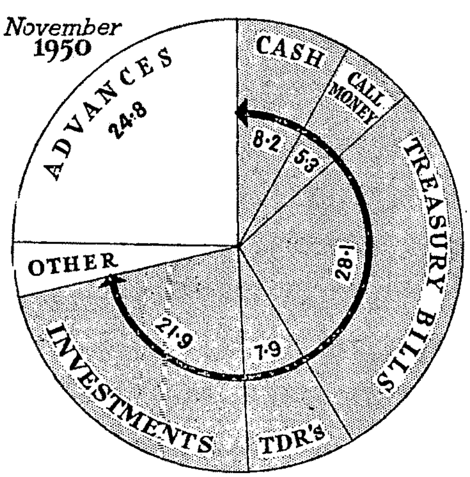
The banks' position is described by the late Lord Linlithgow, whose statement as chairman of the Midland Bank was in an advanced stage of preparation at the time of his death. Lord Linlithgow pointed out that the large-scale replacement of Treasury bills, held by the banks, by the new short-term funding stocks had the effect of reducing sharply the ratio of what are reckoned to be the more liquid assets of the banks to their deposit liabilities.

By long-established observance, he continued, bankers ordinarily work not only to a regular cash ratio – in recent years, 8 per cent of deposits on a day-to-day basis – but also, though with rather more elasticity, to a minimum of 30 per cent of cash, short loans and bills taken together.

Liquidity Proportion

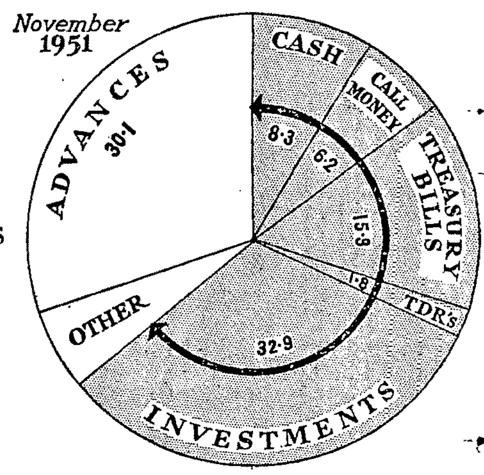
In recent years, Lord Linlithgow said, the actual liquidity proportion had been far above the conventional minimum, but by the funding operation had been brought back much nearer to what was regarded as the basic level. In the Midland Bank's own monthly returns the ratio fell from 40·2 per cent in October to 32·8 per cent in November.

The significance of this change could be inferred from the fact that so long as the ratio of liquid assets was high, it remained possible, even without any reinforcement of the cash base, for a bank to lend more under the heading of advances – the usual form of borrowing for trade and industry and other private customers – by reducing its holding of bills and its



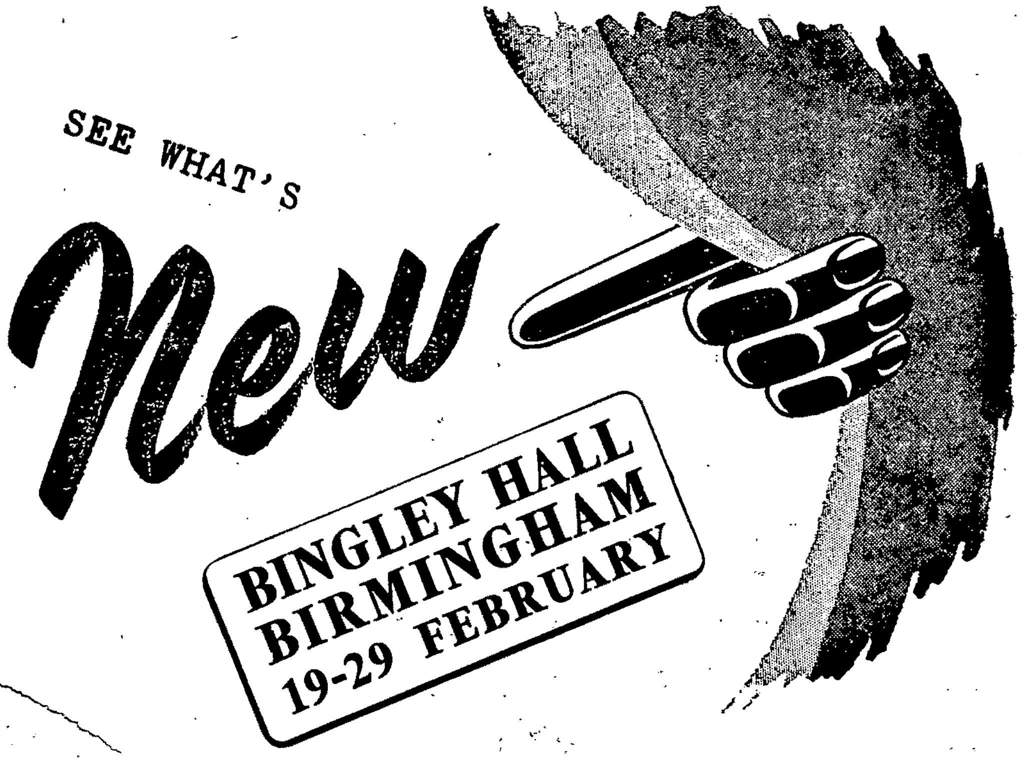
Total deposits — £1,355 millions

MAIN ASSETS AS PERCENTAGES OF DEPOSITS



Total deposits—£1,321 millions

The arrows indicate approximately the proportions used in Government finance.



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loans to the money market. These facts are brought out in graphs which are provided with the accounts and are included in our reprint.

Now that the liquidity ratio had returned to a figure close to the conventional minimum, the scope for enlargement of advances, in the absence of an increase in cash, had been abruptly narrowed. Taking all these factors together, the banks, said the late chairman, had been put into a position in which they might have to restrain severely any strong upward trend in advances. This restriction on the capacity of the banks to create credit, it should be noted, has been accompanied by an official directive to the banks to scrutinize carefully the purposes for which they grant credit facilities.

Investment Position

A further aspect of the banks' balance sheets is the position in regard to investments. The Midland holding, Lord Linlithgow explained, consists entirely of securities with final dates of redemption – there are no 'irredeemables' in the portfolio. Taking even final redemption dates, well over half the nominal amount of the investments would fall due within the next ten years.

While it had been necessary therefore to write down the value of the investments considerably to conform with the practice of entering all quoted investments at a figure not exceeding market value at balance sheet date, the banks could look forward to substantial recoveries in value as redemption dates arrived.

On the subject of taxation, Lord Linlithgow asked shareholders to realize that the rise in profits tax on profits distributed as dividend added roughly half a million £s gross to the profits tax liability – and this to do no more than maintain the 16 per cent rate to which it was reduced by 2 per cent, twenty years ago. This weight of taxation made it increasingly difficult to fortify the bank's internal funds to the extent needed having regard to the great expansion of liabilities in relation to capital resources that had occurred in that period.

Mechanical Hitch

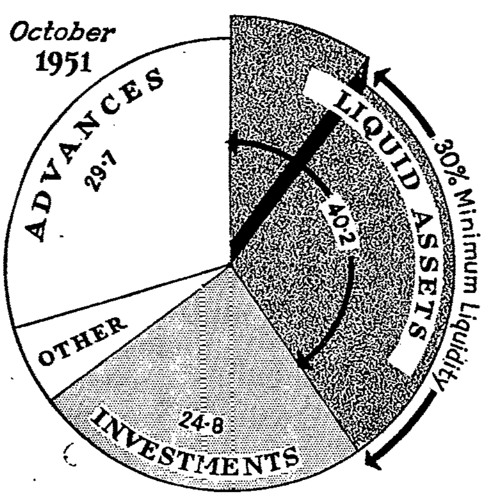
Mr W. M. Coles touches on a matter which we have had in mind for some time – the accounting difficulties of Maconochie Foods Ltd. Mr W. T. Ford, who became chairman at the end of last March, announced the holding of the company's fourth annual meeting on December 31st to comply with the Companies Act, but regretted that 'staff and other difficulties prevented the efficient operation of the company's mechanical accounting system and accordingly, it is now only possible to present the audited accounts for the six months to February 28th, 1951'.

Some further time must elapse, Mr Ford stated, before the directors are in a position to consider accounts for any subsequent period. For this reason, and in view of the need to conserve the company's resources, 'your board are not in a position to consider payment of a dividend on the preference shares as envisaged in their statement to the Press on July 2nd, 1951'.

Mr Coles makes no comment and we can only wonder whether he feels that mechanical accounting systems never fail. Strictly speaking, a system does not fail. But the human element can – and does. And of the reasons why the human element fails in this, as in other matters of life, a whole library could be written.

Money Market

Less official competition resulted in a drop of some £10 million to £239,900,000 in Treasury bills applications on January 8th. The market's bid was raised to £99 15*s* 1*d* and 61 per cent of requirements was obtained. The average rate was 19*s* 7·01*d* per cent against 19*s* 10·64*d* per cent previously. This week's offer is £170 million. There is again no call against Treasury deposit receipts.

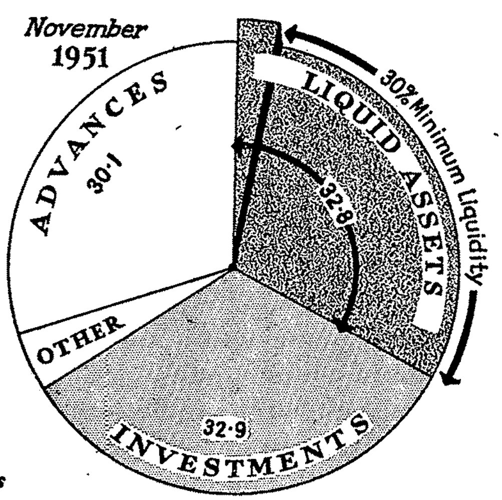


Total deposits—£1,325 millions

BANK

LIQUIDITY

Percentages of deposits



Total deposits—£1,321 millions

BALANCE SHEET OF THE MIDLAND BANK LIMITED, December 31st, 1951

December 31st, 1950 £		£	£
	Share Capital, Authorized:		
	2,869,079 Shares of £12 each		34,428,948
	2,000,000 Shares of £2 10s each		5,000,000
	5,771,052 Shares of £1 each		5,771,052
45,200,000			45,200,000
	Share Capital, Issued:		
	2,869,079 Shares of £12 each, £2 10s paid	7,172,697½	
	1,921,877 Shares of £2 10s each, fully paid ..	4,804,192½	
	3,181,731 Shares of £1 each, fully paid	3,181,731	
15,158,621			15,158,621
15,158,621	Reserve Fund (including Share Premium Account £2,871,224)		15,158,621
816,388	Balance of Profit and Loss Account		818,380
31,133,630			31,135,622
666,979	Dividend payable February 18th, 1952, *less* Income Tax		636,662
1,363,982,385	Current, Deposit and other Accounts, including Contingency Reserves and provision for taxation	1,321,452,597	
27,798,181	Balances in account with Subsidiary Banks and Companies	25,613,704	
1,391,780,566			1,347,066,301
53,650,018	Acceptances and Confirmed Credits on account of Customers		61,703,597
24,477,160	Engagements on account of Customers		27,466,472
£1,501,708,353			£1,468,008,654

Notes.

(1) The Bank has contracts running for the sale of Foreign Currencies to the value of £18,717,277 (*1950: £14,069,872*) which are covered by purchases to a corresponding amount.

(2) Full provision has been made for the Bank's liability for Profits Tax and Income Tax on all profits to date irrespective of when assessable.

(3) There are Contingent Liabilities of £1,380,500 (*1950: £1,380,500*) for uncalled capital in respect of a portion of the Unquoted Investments.

December 31st, 1950 £		£	£	£
116,012,479	Coin, Bank Notes and Balances with the Bank of England			111,111,642
53,579,114	Balances with, and cheques in course of collection on other banks in the British Isles			63,726,092
88,425,125	Money at Call and Short Notice			82,249,988
	Bills Discounted:			
377,657,759	British Treasury Bills		207,877,581	
21,941,770	Other Bills		57,433,476	
399,599,529				265,311,057
100,500,000	Treasury Deposit Receipts			20,000,000
	Quoted Investments at or under Market Value (including £55,000 nominal lodged for Public Account):			
300,998,505	British Government Securities..		422,316,563	
171,323	Other Investments		171,323	
301,169,828				422,487,886
1,059,286,075				964,886,665
1,816,102	Sundry Unquoted Investments at cost, *less* provisions (see *Note 3*)			1,893,093
	Advances:			
343,072,681	Advances to Customers and other Accounts, *less* provision for Doubtful Debts		392,347,429	
1,262,720	Midland Bank Executor and Trustee Co Ltd: Loans on behalf of clients		1,282,400	
344,335,401				393,629,829
78,127,178	Liabilities of Customers for Acceptances, Confirmed Credits and Engagements			89,170,069
	Yorkshire Penny Bank Ltd:			
281,250	93,750 Shares of £5 each, £3 paid		281,250	
187,500	187,500 Shares of £1 each, fully paid		187,500	
468,750	Proportion of Reserve relative thereto		468,750	
937,500				937,500
	Shares in Subsidiary Banks and Companies:			
	Belfast Banking Co Ltd:	£		
800,000	200,000 Shares of £12 10s each, £4 paid ..	800,000		
1,295,168	Reserve and Undivided Profits	1,251,785		
2,095,168			2,051,785	
	Clydesdale & North of Scotland Bank Ltd:			
1,000,000	100,000 Shares of £50 each, £10 paid ..	1,000,000		
1,141,000	65,200 Shares of £50 each, £17 10s paid ..	1,141,000		
300,000	30,000 Shares of £10 each, fully paid ..	300,000		
3,906,734	Reserve and Undivided Profits	3,899,446		
6,347,734			6,340,446	
	Midland Bank Executor and Trustee Co Ltd:			
250,000	200,000 Shares of £5 each, £1 5s paid ..	250,000		
212,874	Share Premiums, Reserve and Undivided Profits	213,153		
462,874			463,153	
Nil	Sundry Nominee Companies at cost, *less* amounts written off		Nil	
				8,855,384
8,300,321	Bank Premises and other properties at cost, *less* amounts written off and provisions..			8,636,114
£1,501,708,353				£1,468,008,654

HARLECH, *Chairman* H. CASSIE HOLDEN, *Deputy Chairman* McGOWAN, *Director* W. G. EDINGTON, *Chief General Manager* J. F. HABBIJAM, *Deputy Chief General Manager*

CURRENT LAW

Company Amalgamation

Ropner Holdings Ltd was a holding company formed for the amalgamation of two shipping companies, separate entities, though under the same management. In order to equalize the assets, the company with the greater assets paid a capital profit dividend equal to the excess. The holding company then issued all its authorized capital to the shareholders of the two companies on the basis of one £1 share for each £1 of the nominal value of the shares of the two.

Harman, J., held that the holding company had issued its shares at a premium within the meaning of Section 56 (1) of the Companies Act, 1948, and thus must transfer to share premium account a sum equal to the difference between the capital issued and the true value of the assets of the two companies (*Henry Head & Co Ltd v. Ropner Holdings Ltd* (*Law Times*, November 30th, 1951)).

Residuary Gifts: Competition

In *Re Gare; Filmer v. Carter* (*Solicitors' Journal*, November 24th, 1951), the Court found in favour of St Peter's Church, Staines, in the following circumstances. A testator used a printed form of will and after making specific legacies he left his residue equally between the Church and Oxford University. This was in his own writing. At the end of the will the printed words appeared: 'I devise and bequeath all my real and personal estate not hereby otherwise disposed of unto' and accordingly he added, 'my executors to deal with at their discretion'.

Harman, J., held that there was no competition. It was quite clear what had happened and in any event the second of the gifts of the residuary estate was a gift only of anything which had not hitherto been disposed of. If, therefore, the first gift was good there was nothing on which the second could operate. He held that the gift to the Church was good, being a gift to the parochial church council, limited to church purposes connected with the services of the church (Parochial Church Councils Measure, 1921).

Termination of Annuity

The deceased in *Re Beit's Will Trusts; Beit v. Commissioners of Inland Revenue* (*Law Times*, November 30th, 1951) was entitled under a will to an annuity for life to be secured by an annuity fund set up out of residue. The testatrix left her residue to her three children. The estate proved inadequate to meet the fund and the deceased agreed that the executors should buy an annuity from the residuary legatees equal to the deceased's annuity, should hold the annuity so purchased as security and should distribute the residue of the estate.

The Court of Appeal held that the legal effect of the transaction was not to determine the annuity; that no contractual relationship was set up between the annuitant and the residuary legatees; that the annuitant's rights under the will continued, and that the only change was that an asset of the residuary estate had been appropriated to the payment of the annuity under the will. Thus there was no determination under Section 43 (1) of the Finance Act, 1940.

Administration of Estate

A testatrix left all her jewellery and personal chattels to her sister and her residuary estate to other persons. By a codicil she declared that she resided in Monaco, left to her sister all her possessions in Monaco, where she died, and made her sister an executor. Her domicile was English. Her sister went to Monaco with another executor and arranged for the transport and insurance of the chattels.

Harman, J., held that there was no duty on the executors to do this and thus the costs must be borne by the estate in Monaco specifically bequeathed to the sister and not by the residuary estate. (*Re Fitzpatrick (decd.), Bennett and Another v. Bennett and Another* (*Law Journal*, November 23rd, 1951).)

Public Works Contract: Proof

A contractor entered into a prime cost contract with a local authority, submitting accounts each month for payment. The contractor sued the authority, upon which the latter challenged certain accounts which had already been checked, passed and paid. The contractor asserted that the burden of proof of the correctness or otherwise of the accounts had passed to the authority.

The Outer House of the Court of Session agreed. Lord Sorn thought it might not be going too far to suggest that, instead of it being for the contractor to justify his charge, it was for the employer to show why the item, passed and paid for, should not stand. (*Johnston v. Greenock Corporation* (*Law Journal*, November 30th, 1951).)

Incomplete Gift

In *Jackson v. Rodger* (*Law Journal*, December 7th, 1951), the plaintiff and defendant were executrices of a testatrix who had told the plaintiff that she should have her motor-car as soon as it had been put in running order. Subsequently she lent it to the defendant, writing to the plaintiff to explain. Her will made no reference to the car, which was in the possession of the defendant when the testatrix died. The plaintiff claimed the car on the ground that the imperfect gift had been perfected by her appointment as testatrix.

The Court of Appeal held that this principle did not apply where the gift was incomplete because the donor wished first to apply the subject-matter of it to some other purpose. Thus the plaintiff was not entitled. On the other hand there was a gratuitous bailment to the defendant, but there were no circumstances entitling her to set up a representation on the strength of which she had changed her position. Thus the bailor could recall the bailment and thus the defendant could not continue to use the car until she no longer required it.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

National Savings

SIR, – In the course of his first speech in the House of Commons as Chancellor of the Exchequer, Mr R. A. Butler referred to the increased inflationary pressure and stressed the need for restraint in personal spending, adding,

> 'savings are also vital and I look with confidence to the National Savings movement to intensify their efforts to marshal the great army of small savers'.

The Chancellor further emphasized both these needs in his second speech on January 29th, 1952.

We, as accountants, must do what we can to help our country in the difficult times through which it is passing and active support of the National Savings movement is one direction in which we can assist.

Many of the members of our Institute and members of the other accountancy bodies have been and are supporters of the National Savings movement and I appeal for their continued support both in the national interest and for the welfare of the individual.

I would ask those who are accountants to industrial undertakings to assist in every way possible in making the operation of a savings group practicable. I am aware that one of the chief objections raised by managements against National Savings groups is that they impose additional work on the clerical staff. It is true that some additional work is unavoidable but this can often be minimized by consultation with the technical staff of the National Savings Committee.

It is of the utmost importance in the national interest that National Savings should be increased to the greatest possible extent and I urge the members of our Institute to get into touch with the National Savings Committee in their area. The address of the nearest district office will be found in the local telephone directory.

Yours faithfully,
CHARLES W. BOYCE,
President,
THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

Moorgate Place, London, EC2.

Date of Controlling Interest in a Subsidiary Company

SIR, – Company A. negotiated for the purchase of all the issued capital in company B., a wholly-owned subsidiary of company C. Although negotiations were protracted the method of calculating the purchase price and conditions of sale were contained in heads of agreement (signed early in January 1951) which laid down that

> '. . . it is the intention the transactions be completed by January 31st, 1951, or such other date as may be mutually agreed between the parties'.

On January 31st, 1951, a deposit representing approximately one-third of the purchase price was paid to the bankers of the vendors as stakeholders. Moreover, on January 31st all the directors appointed by C. resigned and were substituted by directors nominated by A. and the latter immediately took control of the business. It can be assumed, therefore, it was the intention that the control should pass on January 31st. Owing to the time necessary to calculate the actual purchase price, which was mainly based on the 1950 accounts, the shares were not officially transferred until July 31st, 1951. For the purposes of consolidation should B. be treated as a subsidiary of A. on January 31st, or as from July 31st when the shares were formally registered in the name of A.?

Yours faithfully,
N. H.

Road Hauliers' Compensation

SIR, – In a leading article of December 1st, 1951, you stated, dogmatically, that the Transport Arbitration Tribunal had, in the *Yeoman* case, rejected the contention of the Road Haulage Executive that in the case of individual hauliers and partnerships the admitted profits should be reduced by some notional remuneration for the proprietors actively engaged in the business.

We find that it is the practice, at least at the stage of the preparation of a provisional valuation, to continue to make this adjustment. There appears to be a set scale laid down in the instructions issued for the guidance of the accountants acting for the Executive.

We should be glad to hear, from other practitioners, whether this practice is being followed consistently and if any have had any success in eliminating the adjustment.

Yours faithfully,
Dartford, Kent. WALTER T. MILLS & CO.

Companies Act, 1948: Variation of Shareholders' Rights – Minutes of Meeting

SIR, – A meeting of preference shareholders of a company has recently taken place, and the preference shareholders elected their chairman and passed unanimously all the resolutions submitted.

The minutes have been written up, and I am now endeavouring to ascertain on what occasion these minutes are to be confirmed and signed, and by whom. For all I know, the preference shareholders may never again hold a separate meeting.

Can your readers suggest the correct practice and quote any authorities for their observations?

Yours faithfully,
KAYAM.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, February 6th, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, S. H. Gillett, M.C., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, K. A. E. Moore, P. Morgan-Jones, S. J. Pears C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, E. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T. Wilde, with the Secretary and an Assistant Secretary.

Death of His Majesty the King

Immediately after the commencement of the Council meeting the Secretary reported that he had just been informed of the death of His Majesty King George VI and it was then resolved:

(1) That the President, Vice-President and Council of The Institute of Chartered Accountants in England and Wales, on behalf of themselves and the Fellows and Associates of the Institute desire humbly and respectfully to convey to Her Majesty Queen Elizabeth II, Her Majesty the Queen Mother, Her Majesty Queen Mary and the other Members of the Royal Family, their profound grief and sympathy in the irreparable loss which they and the Nation have sustained by the death of His Most Gracious Majesty, King George VI. They also desire to assure Her Majesty of their loyal devotion to her person and throne and pray that Her Majesty may be long spared to rule in peace and happiness over her loyal and devoted people.

(2) That a copy of the above resolution under seal be forwarded to the Secretary of State for Home Affairs.

Examination Results - November 1951

The Examination Committee reported the results of the examinations in November 1951 as follows:

	Passed	*Failed*	*Total*
Preliminary	66	139	205
Intermediate	368	522	890
Final	504	552	1,056
	938	1,213	2,151

The following prizes and certificates of merit were awarded:

Preliminary

'Deloitte' Prize for the year 1951

D. West, (Chorley) (May 1951 Preliminary Examination).

Intermediate

First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize (with one other) and the 'Plender' Prize for the Taxation and Cost Accounting Paper

G. Carter (B. Asquith), Leeds.

Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prizes for the General Commercial Knowledge and the Auditing Papers

H. A. Sherman (L. W. Bingham), London.

Third Certificate of Merit

D. L. Bennett (F. H. Richardson), Derby.

Fourth Certificate of Merit

J. M. Barney (O. S. Francis), Reading.
J. M. Nuttall (G. N. Ward), Keswick.

Sixth Certificate of Merit

J. W. B. Fewlass (C. M. Strachan), Hull.

Seventh Certificate of Merit and the 'Plender' Prize for the Book-keeping and Accounts (Limited Companies) Paper

C. G. Darbyshire (F. C. Darwell), Blackpool.

Eighth Certificate of Merit and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) Paper

R. S. Brooks (A. C. C. Oddie), Bristol.

Eighth Certificate of Merit

D. R. de Selincourt (L. C. Beecroft), London.
W. G. D. Manning (D. H. Collier), London.

Eleventh Certificate of Merit, the 'Frederick Whinney' Prize (with one other) and the 'West' Prize

J. R. Riddell (R. H. Hilton-Jones), Shrewsbury.

Twelfth Certificate of Merit

K. E. Secrett (R. W. Young), London.

Thirteenth Certificate of Merit

J. A. Cutts (A. G. B. Drabble), London.

Fourteenth Certificate of Merit

G. T. Johnson (A. H. Covington), London.
A. Marment (J. G. Imray), London.
B. Marshall (E. J. Fawn), York.

'Plender' Prize for the Book-keeping and Accounts (Partnership) Paper

D. T. E. Youngman (F. C. Gibbons), Hastings.

Final

First Certificate of Merit, the Institute Prize, the 'Walter Knox' Scholarship, the 'O. C. Railton' Prize for the year 1951 and the 'Plender' Prize for the Advanced Accounting (Part II) Paper

H. E. Hann (F. H. Cropp), London.

Second Certificate of Merit

W. F. Masters (G. W. Wilks), London.

Third Certificate of Merit, the 'W. B. Peat' Medal and Prize, the Auditing Prize and the 'Plender' Prize for the Auditing Paper

F. Collis (R. Kandler), London.

Fourth Certificate of Merit

P. J. Mellows (C. R. Goulder), London.

'Frederick Whinney' Prize and the 'Plender' Prize for the Advanced Accounting (Part I) Paper

W. C. Cull (W. A. Roberts), Southampton.

'Roger N. Carter' Prize

A. D. Moore (J. P. Moore), Bury.

'West' Prize
J. E. Harvey-Barnes (H. R. Sewell), Birmingham.
'Plender' Prize for the Taxation Paper
A. S. Masters (R. J. Butterworth), London.
'Plender' Prize for the General Financial Knowledge and Cost Accounting Paper
F. A. J. Couldery (C. R. P. Goodwin), Brighton.
'Plender' Prize for the English Law (Part I) Paper
J. C. Brooman (E. E. Spicer), London.
'Plender' Prize for the English Law (Part II) Paper
H. J. Balls (A. S. H. Dicker), Norwich.

Liability of an Accountant for the Loss of Clients' Books or Papers which are in his possession

The Council decided to issue the following statement:

The Council has been advised that, in the absence of negligence, an accountant would incur no liability in respect of the loss by fire or otherwise of books or papers belonging to clients which may be in his possession but that the onus of proof of absence of negligence would be on the accountant.

As a claim in respect of the loss of books and papers may well be considerably in excess of the stationery value of such books and papers, the Council reminds members that it may be desirable for them to review their insurance policies to make sure that they are protected against any liabilities of whatsoever nature which they may incur to third parties in respect of the loss of 'documents' – this word being used in its widest sense.

Readmissions

One application for readmission to membership was not acceded to.

Exemptions from the Preliminary Examination

Two applications under bye-law 79 for exemption from the Preliminary examination were acceded to.

Two applications under bye-law 63 (*a*) for exemption from the Preliminary examination were not acceded to.

Reduction in Period of Service under Articles

Two applications under bye-law 63 (*c*) for a reduction in the period of service under articles were acceded to and two applications were not acceded to.

Intermediate Examination

An application under bye-law 81 from an articled clerk for permission to sit for the Intermediate examination prior to the expiration of one-half of his period of service under articles was not acceded to.

Approved Universities' Degree Courses: Exemptions from the Intermediate Examination

Fifteen applications under bye-law 85 (*a*) for exemption from the Intermediate examination from articled clerks who had produced evidence of having graduated by taking one of the degree courses approved by the Council under bye-law 62 were acceded to.

The Council decided to send the following statement to the universities and university colleges participating in the scheme of the Joint Standing Committee of the Universities and the Accountancy Profession and also to all members of the Joint Standing Committee:

'In the booklet issued by the Joint Standing Committee of the Universities and the Accountancy Profession it is made clear that the approved degree courses include the three main subjects of accountancy, economics and law, each of which must be read for three sessions. In order to be eligible to apply under bye-law 85 (*a*) for exemption from the Intermediate examination of The Institute of Chartered Accountants in England and Wales, it is necessary for an applicant to have graduated after taking a degree course the conditions of which were in accordance with the course approved by the joint standing committee. The Council of the Institute has recently had to consider certain cases where a graduate had been exempted by a university from the first year of the degree course or from reading one of the main subjects during the first year. Whilst it is appreciated that such exemptions are, for degree purposes, entirely a matter for the universities concerned, it is nevertheless fundamental to the scheme that, for the purpose of exemption from the Institute's Intermediate examination, the candidate shall have taken the full three years' course approved by the joint standing committee. In these circumstances the Council wishes it to be understood that it will not entertain an application for exemption from the Institute's Intermediate examination where a candidate has been exempted from any part of the approved degree course.

'The Council has also had to consider certain cases where an applicant for exemption from the Institute's Intermediate examination had failed in his degree examination at the first attempt but had subsequently graduated, either by remaining at the university for a further year and re-sitting the degree examination or by studying as an external student after the completion of his three years' course and re-sitting for the subject(s) in which he failed. The Council has decided that exemption from the Institute's Intermediate examination will not normally be granted unless the degree examination was passed at the first attempt. As this matter is not referred to in the joint standing committee's booklet or in the booklets issued by the Institute, the Council has decided that this rule shall not apply to persons who commence or have commenced their degree courses before October 1st, 1952.'

Final Examination

One application under bye-law 63 (*e*) for permission to sit for the Final examination in May 1952 was acceded to.

Change of Name

It was resolved that the name of Mr John Wigham Finch Richardson, M.A., A.C.A., be changed in the Institute records to John Wigham Richardson.

Articled Clerk in Industrial Organization

One application under bye-law 58 (*c*) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following sixty-five associates who have commenced to practise:

Appleby, Ralph Edmund; 1948, A.C.A.; (Gillespie Brothers & Co), 40 Westgate Road, Newcastle upon Tyne, 1, and at London.

Atkinson, Ernest Norman; 1950, A.C.A.; 7 Glebe Avenue, Benton, Newcastle upon Tyne, 7.

Blackburn, Stanley; 1951, A.C.A.; (Wm. F. Smart, Son & Bloor), Finsbury Pavement House, 120 Moorgate, London, EC2.

Blatchford, Raymond Bruce; 1951, A.C.A.; (Cruse & Blatchford), Queen Anne Chambers, The Strand, Barnstaple.

Caswell, Donald; 1950, A.C.A.; (George Cobley & Co), 33 Henrietta Street, Covent Garden, London, WC2, and at Waltham Cross.

Champness, Philip Harvey, M.A.; 1950, A.C.A.; (J. H. Champness, Corderoy, Beesly & Co), 10 St Swithin's Lane, London, EC4.

Clark, Kenneth William Stuckey; 1932, A.C.A.; (*Woolger, Hennell, Scott-Mitchell & Co), 165–167 Moorgate, London, EC2.
Cooper, Alfred; 1951, A.C.A.; (*Cooper & Statter), 35 Ashley Crescent, Swinton, Lancs.
Corrigan, Thomas, B.A., B.COM.; 1926, A.C.A.; 11 Downs Road, Purley, Surrey.
Davies, Douglas Trevor; 1943, A.C.A.; (Bennett & Bennett), 13 Bold Street, Warrington.
Dent, Walter Thomas; 1928, A.C.A.; 20 Milton Road, Harpenden.
de Paula, Frederic Clive, T.D.; 1940, A.C.A.; (*Robson, Morrow & Co), 59 New Cavendish Street, London, W1, and at Bradford, Glasgow, Leeds and Manchester.
Dickson, Ian Charles; 1949, A.C.A.; 72 Harefield Road, Uxbridge, Middlesex.
Douglas, Robert Alexander, B.COM.; 1951, A.C.A.; (Blackburns, Robson, Coates & Co), Duchy Chambers, 4 Clarence Street, Manchester, 2, and at Bradford, Leeds and London.
Dunn, Frederick John Arden, D.S.C.; 1937, A.C.A.; (T. G. Shuttleworth & Son) and (Hadfield, Riddell & Co), 68 Queen Street, Sheffield, 1.
Eccleshall, George Linney, M.A.; 1947, A.C.A.; (Derbyshire & Co), Hanover House, 73–78 High Holborn, London, WC1, and at Nottingham.
Edwards, Victor Paul; 1949, A.C.A.; (Wildash & Co), 3 Liverpool Gardens, Worthing.
Elgar, Stanley Norton; 1950, A.C.A.; (W. H. Barnes & Co), 10 Coleman Street, London, EC2.
Fenton, Cyril; 1951, A.C.A.; 74c Greencroft Gardens, West Hampstead, London, NW6.
Fisher, John Frederick; 1930, A.C.A.; 'Triermain', Laburnum Grove, Cleadon, Sunderland.
Fry, George Russell Henry, D.F.C., A.F.C.; 1949, A.C.A.; (Andw. W. Barr & Co), Abbott's Chambers, 202 Bishopsgate, London, EC2.
Gandy, Philip; 1950, A.C.A.; (Bennett & Bennett), 13 Bold Street, Warrington.
Goldwyn, Leslie; 1951, A.C.A.; (Goldwyn Bros. & Co), 115–119 Moorgate, London, EC2.
Green, Max David; 1950, A.C.A.; 10 Savoy Close, Edgware, Middlesex.
Groom, Claud Charles Kenneth; 1928, A.C.A.; (Gillespie Brothers & Co), 43 Chandos Place, London, WC2, and at Newcastle upon Tyne.
Groome, Jack; 1951, A.C.A.; (*Wakefield, Dodd & Thorneley), 3 Stanley Street, Chester.
Guest, Frank William; 1932, A.C.A.; (Sharp, Parsons & Co), 120, Colmore Row, Birmingham, 3, and at London.
Haywood, James Harry; 1951, A.C.A.; 1230 Stratford Road, Hall Green, Birmingham, 28.
Head, Eric Howard; 1950, A.C.A.; (Futcher, Head, Smith & Co), Broad Street House, 54 Old Broad Street, London, EC2.
Holloway, Richard Fosbrooke; 1948, A.C.A.; (Derbyshire & Co), Bentinck Buildings, Wheeler Gate, Nottingham, and at London.
Hughes, Cyril Fred; 1951, A.C.A.; (Walter J. Edwards & Co), 15 Bridge Street, Walsall, and at Cheltenham.
Jones, John Humphrey; 1950, A.C.A.; 214 Urmston Lane, Stretford, Manchester.
King, John Michael Ewen; 1951, A.C.A.; c/o Ellis Green & Co, Cromwell Buildings, Blackfriars Street, Manchester, 3.
Kirkman, Wilfred; 1950, A.C.A.; 'Mornington', Runcorn Road, Little Leigh, Northwich, Cheshire.
Lumb, George Edward; 1936, A.C.A.; (Gordon, Walton & Co), 7 South Parade, Leeds, 1.
Mack, Harvey Graham; 1950, A.C.A.; (Blease & Sons), Clifford's Inn, London, EC4, and at Liverpool.
Margetts, John William; 1949, A.C.A.; (*Peat, Marwick, Mitchell & Co), 11 Ironmonger Lane, London, EC2.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Miles, Mirvan George; 1933, A.C.A.; (Hargreaves & Marsh), Copthall House, Copthall Avenue, London, EC2.
Millichap, Kenneth Andrews; 1950, A.C.A.; (Mellor, Snape & Co), Old Colony House, South King Street, Manchester, 2, and at Crewe and Macclesfield.
Morgan, John Rees; 1949, A.C.A.; (Futcher, Head, Smith & Co), Broad Street House, 54 Old Broad Street, London, EC2.
Moxon, William Leslie Skelton; 1930, A.C.A.; (Gordon, Walton & Co), 7 South Parade, Leeds, 1.
Nicklin, Ronald Stuart; 1929, A.C.A.; 24, West Street, Wimborne, Dorset.
Norris, David Colin, B.SC.; 1951, A.C.A.; (Haythornthwaite & Norris), 20 Richmond Terrace, Blackburn.
Nott, Alan John; 1951, A.C.A.; 'Franklyn', Broxhill Road, Havering, Romford, Essex.
Oakes, Denis Frederick; 1948, A.C.A.; (James Train & Co), Barclays Bank Chambers, 1 Ripple Road, Barking, Essex.
Page, John Thorby; 1930, A.C.A.; (*Rowett, Sons & Page) 12 Grant's Walk, St Austell, Cornwall, and at Plymouth.
Page, Louis Henry; 1921, A.C.A.; St Nicholas, St Nicholas Place, Sheringham, Norfolk.
Parrott, John Francis; 1949, A.C.A.; (Derbyshire & Co), Hanover House, 73–78 High Holborn, London, WC1, and at Nottingham.
Phillips, George William Mark; 1938, A.C.A.; (Tribe, Clarke, Painter, Darton & Co), 43–44 Broad Street Avenue, Blomfield Street, London, EC2; also at Bristol, (Tribe, Clarke & Co), and Rochester and Sittingbourne, (Tribe, Clarke, Darton & Pollock).
Pledge, Frederick Herbert; 1951, A.C.A.; (Bristow & Co), 68½ Upper Thames Street, London, EC4.
Powell, John Walter; 1949, A.C.A.; (Thomas Brittain & Co), 4 Waterloo Street, Birmingham, 2.
Price, Stephen; 1950, A.C.A.; (*Duart-Smith, Baker & Price), Albion House, King Street, Gloucester.
Ribbens, Dennis; 1951, A.C.A.; (Ribbens & Co), 83 Dover Road, Northfleet, Gravesend, Kent.
Salter, Kenneth John; 1936; A.C.A.; (*Harold Carter, Son & Co), Rosebery House, 8 Bream's Buildings, Chancery Lane, London, EC4.
Smith, Patrick Hemsley; 1950, A.C.A.; (Futcher, Head, Smith & Co), Broad Street House, 54 Old Broad Street, London, EC2.
Snowden, Kenneth George; 1951, A.C.A.; 9 Lune Street, Preston.
Swallow, Leslie Edward; 1948, A.C.A.; (Wade, Harrison & Co), 53 New Broad Street, London, EC2.
Talbot, John; 1950, A.C.A.; (Wm. Wrigley & Son), 18 Clegg Street, Oldham.
Tarn, Walter Herbert; 1925, A.C.A.; (*Layton-Bennett, Billingham & Co), 23 Blomfield Street, London, EC2.
Tootle, Ernest, B.COM.; 1941, A.C.A.; (Holmes & Turner), Wallgate Chambers, Wigan.
Townley, Eric Samuel; 1951, A.C.A.; 15 Mill Ridge, Edgware, Middlesex.
Watkins, Herbert James; 1950, A.C.A.; (*Layton-Bennett, Billingham & Co), 23 Blomfield Street, London, EC2.
Whitaker, John de Pury, B.A.; 1937, A.C.A.; 'Restings', Cresswell Street, Tenby, Pembrokeshire.
Williams, David Hugh; 1949, A.C.A.; (Oldham, Holland, Frank & Co), Old Bank House, 190 High Street, Lewes; also at London, (Oldham, Holland & Co).
Wood, James; 1927, A.C.A.; 14 Cumberland Street, Manchester, 3.

(2) That thirty-eight associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That three associates be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

A list of those who complete their fellowship or membership before February 19th will appear in *The Accountant* of February 23rd.

The Council decided that in future any application for a certificate of practice and any application for election to fellowship shall be accompanied by a specimen of the member's business notepaper; and that the notes which appear on form C6 and the notes which accompany form B46 be amended accordingly.

Vice-Chairman of Committee

Mr P. Morgan-Jones was elected Vice-Chairman of the Applications Committee in place of the late Mr Graham Adam.

Registration of Articles

The Secretary reported that 119 articles of clerkship were registered during the month of January as compared with 150 in the previous January.

Summer Course, 1952

The Council approved a notice for distribution to all members of the Institute, giving preliminary details of the summer course to be held at Christ Church, Oxford, from September 12th to 17th, 1952. Arrangements have been made for addresses to be given on 'Mechanized accounting and auditing procedure' (Mr H. O. H. Coulson, F.C.A., on auditing procedure, and Mr F. C. de Paula, A.C.A., on mechanized accounting), 'The office organization of an accountant in practice' (by Mr R. W. Foad, A.C.A.), 'Receivership' (by Mr R. G. Leach, C.B.E., F.C.A.), and 'Taxation, with particular reference to depreciation' (by Mr J. E. Talbot, A.C.A.).

Resignations

The Secretary reported the resignation of:

Mr Herbert Joseph Armstrong, F.C.A., Newcastle upon Tyne.
„ Arthur Bertram Cole, A.C.A., Ipswich.
„ George Elder, F.C.A., St Annes-on-Sea.
Miss Mary Winifred Fielden, A.C.A., Colchester.
Mr Daniel Thomas Pugh, A.C.A., Southall.
„ Frederick William North Sibley, A.C.A., Christchurch.

The Late Graham Adam, M.C., F.C.A.

The Council received with very great regret the Secretary's report of the death of Mr Graham Adam, M.C., F.C.A., Newcastle upon Tyne, a member of the Council from 1944 to 1952, and Vice-Chairman of the Applications Committee since 1950.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Stanley Howard Bersey, O.B.E., F.C.A., London.
„ Harold Percy Carter, F.C.A., London.
„ Sydney Herbert Clinch, M.B.E., A.C.A., London.
„ Robert John Corner, A.C.A., London.
„ John Sell Cotman, F.C.A., Reading.
„ Edmund Mervyn Cox, A.C.A., Birmingham.
„ James Charles Crofts, A.C.A., Alderley Edge.
„ Frank Cyril Dodd, A.C.A., Plymouth.
„ Cecil Rhodes Dormer, F.C.A., London.
„ Edward Telford Eastwood, A.C.A., Nottingham.
„ Gerald Vesey Forde, A.C.A., Cheltenham.
„ Herbert Henry Gay, F.C.A., Nelson, New Zealand.
„ William Marsh Good, B.A., A.C.A., London.
„ Archibald Greenhalgh, F.C.A., Bolton.
„ James Gordon Imray, F.C.A., London.
„ Arthur Grayhurst Hewat, F.C.A., Reading.
„ Mortimer Lancaster, F.C.A., London.
„ Harry Leach, A.C.A., Bolton.
„ Andrew William Macredie, F.C.A., Sheffield.
„ James Cecil Meadowcroft, A.C.A., Leeds.
„ John Geoffrey Rowe Orchard, F.C.A., Exeter.
„ Harold George Palk, A.C.A., Esher.
„ Sidney Thomas Peirson, F.C.A., Coventry.
„ Eric Glynn Pritchard, A.C.A., London.
„ Donald Ross, F.C.A., Nottingham.
„ John Geoffrey Swindell, A.C.A., London.
„ James William Whale, A.C.A., London.

SIXTH SUMMER COURSE

Christ Church, Oxford, September 12th to 17th, 1952

The Council of the Institute has made arrangements, by kind consent of the governing body of Christ Church, Oxford, for the sixth summer course to be held in September. The course will assemble during the afternoon and evening of Friday, September 12th, 1952, and disperse after lunch on Wednesday, September 17th, 1952. Accommodation will be available for members wishing to remain for Wednesday night.

Proceedings

As on previous courses, the objects are to afford members from all parts of the country an opportunity of meeting one another and to promote serious thought and discussion on some of the important matters confronting the accountancy profession. Group discussions and free exchange of views and experience will form an essential feature and the programme will provide for recreation and social activities. Arrangements have been made for addresses by speakers on the following subjects

'Mechanized accounting and auditing procedure', by Mr H. O. H. Coulson, F.C.A. ('Auditing procedure'), and Mr F. C. de Paula, A.C.A. ('Mechanized accounting').

'The office organization of an accountant in practice', by Mr R. W. Foad, A.C.A.

'Receivership', by Mr R. G. Leach, C.B.E., F.C.A.

'Taxation, with particular reference to depreciation', by Mr J. E. Talbot, A.C.A.

Allocations of Vacancies

A maximum of 160 members can be admitted to the course. The application list will remain open until March 31st, 1952, and if necessary allotments will then be made by ballot.

Cost

The fee payable by members attending the course is £10 10s per member, inclusive of accommodation and meals in college. (An additional charge of 10s will be made for members remaining until Thursday morning.)

Applications

Members of the Institute wishing to attend should obtain an application form from the Secretary of the Institute.

COMPANY REGISTRATIONS

ENGLAND AND WALES

At Bush House, London

JANUARY 1st TO DECEMBER 31st, 1951

(Compiled by Jordan & Sons Ltd, Company Registration Agents, Chancery Lane, WC2.)

Classes	Public Companies		Private Companies		Totals	
	Number Registered*	Capital	Number Registered	Capital	Number Registered	Capital
		£		£		£
Advertising	—	—	110	244,150	110	244,150
Boots and Shoes	1	—	110	423,950	111	423,950
Bricks, Cement, etc.	1	320,000	65	483,900	66	803,900
Builders	—	—	902	3,012,269	902	3,012,269
Carriers	1	—	318	876,025	319	876,025
Chemicals	1	—	344	2,231,750	345	2,231,750
Clothing	—	—	1,005	3,692,298	1,005	3,692,298
Clubs	11	6,000	15	22,200	26	28,200
Drink	2	100	87	561,400	89	561,500
Electricity (Radio), Gas and Water	3	3,000	401	1,436,650	404	1,439,650
Engineers	4	4,000	1,272	8,877,650	1,276	8,881,650
Farmers and Planters	5	12,000	341	2,479,062	346	2,491,062
Food	4	2,000	1,223	5,091,332	1,227	5,093,332
Furniture	—	—	295	1,326,795	295	1,326,795
Glass and Pottery	—	—	88	341,510	88	341,510
Hotels	—	—	140	674,960	140	674,960
Insurance	2	250,000	78	1,474,600	80	1,724,600
Investment, Finance and Banks	12	22,025,000	359	4,564,229	371	26,589,229
Jewellery	1	—	129	466,200	130	466,200
Kinemas	3	—	103	205,500	106	205,500
Land and Property	15	12,500	922	3,823,937	937	3,836,437
Laundries	—	—	126	442,800	126	442,800
Leather	3	—	88	308,500	91	308,500
Merchants	4	750,000	815	3,779,470	819	4,529,470
Metals	1	—	266	1,532,650	267	1,532,650
Mines and Quarries	2	160,000	53	1,876,600	55	2,036,600
Miscellaneous	32	—	216	532,650	248	532,650
Motors	4	—	585	2,444,506	589	2,444,506
Music	5	—	50	76,300	55	76,300
Newspapers	—	—	52	139,100	52	139,100
Nurserymen	1	—	107	333,900	108	333,900
Nursing	14	—	112	318,655	126	318,655
Oil	—	—	23	67,200	23	67,200
Photography	—	—	80	113,650	80	113,650
Plastics	—	—	61	249,700	61	249,700
Printers	—	—	193	739,250	193	739,250
Publishers	1	1	101	225,355	102	225,356
Roads	—	—	7	22,500	7	22,500
Rubber	1	—	29	177,650	30	177,650
Schools	6	—	28	99,500	34	99,500
Shipping	5	78,000	146	6,577,800	151	6,655,800
Sports	13	31,000	156	305,875	169	336,875
Stationers and Papermakers	—	—	188	1,058,400	188	1,058,400
Textiles	—	—	643	5,636,907	643	5,636,907
Theatres	11	—	105	199,400	116	199,400
Timber	2	—	156	1,230,700	158	1,230,700
Tobacco	—	—	68	328,900	68	328,900
Totals (for the year 1951)	171*	23,653,601	12,761	71,128,285	12,932	94,781,886
Comparisons with 1950	*183*	*1,226,725*	*13,095*	*66,535,347*	*13,278*	*67,762,072*

* Includes 145 guarantee companies.

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS

Results of Examinations held in November 1951

FINAL EXAMINATION Parts I and II

Honours Candidates (6)

First Certificate of Merit and First Prize
Barnes, Ernest William (J. & A. W. Sully & Co), Bristol

Second Certificate of Merit and Second Prize
Mather, Derek (Cooper Brothers & Co), Liverpool.

Third Certificate of Merit
Reeve, Kenneth Charles (Duck, Mansfield & Co), London.

Fourth Certificate of Merit
Davis, Kenneth George (Armson, Ward & Co), London.

Fifth Certificate of Merit
Swann, Francis Edwin William (Burrows & White), Nottingham.

Sixth Certificate of Merit
Leonardi, Eric (Burrows & White), Nottingham.

Abbott, H. (Croudson & Co), Leeds.
Adcock, J. R. (Peat, Marwick, Mitchell & Co), Manchester.
Astley, P. T. (Allen, Edwards & Co), Birmingham.
Ayres, J. R. (Allen, Baldry, Holman & Best), London.

Bagge, E. H. (Kay, Keeping & Co), London.
Bagley, H. J. (Thomson McLintock & Co), London.
Baigent, G. W. (Harrison Smith & Haughton), Bath.
Baldwin, F. A. (formerly with A. Hornby & Co), London.
Ball, T. (Beaver, Bowen & Co), Southport.
Barnes, E. W. (J. & A. W. Sully & Co), Bristol.
Barrett, J. A. J. (Peat, Marwick, Mitchell & Co), London.
Barton, E. E. (Bowman, Grimshaw & Co), Blackpool.
Bhalla, A. P. (formerly with P. L. Tandon & Co), Kanpur.
Bhatia, S. M. (formerly with Gondalia & Mandviwalla), Bombay.
Blackie, B. R. R. (Lentell & Trenchard), Seaton.
Brewster, R. B. (Mundy Brewer & Johnson), Bath.
Bridewell, J. W. (Harman & Gowen), Norwich.
Brooker, R. P. (Official Receiver's Department, Board of Trade).
Brown, G. D. (Charles Wakeling & Co), London.
Brown, W. E. (Pinner, Fyley & Co), Smethwick.
Buckle, S. (F. W. Stephens & Co), London.
Burkinshaw, N. B. (Cooper Brothers & Co), Sheffield.

Cameron, K. J. C. (Farrow, Bersey, Gain, Vincent & Co), London.
Cashmore, J. (Hubbart, Durose & Pain), Nottingham.
Cawley, C. (J. Paterson Brodie & Son), Stoke-on-Trent.
Chapman, J. C. (T. Stanley Milburn), North Shields.
Cheetham, J. (Dearden, Gilliat & Co), Manchester.
Christian, R. L. (J. Nicholson & Co), Lincoln.
Corfield, J. A. (Allen, Baldry, Holman & Best), London.
Creed, R. A. (Ford, Bull Ellis & Reid), London.
Criddle, A. (Watson, Waddington & Sharp), Doncaster.
Cunningham, G. A. (Walter J. Smith & Son), London.

Davies, W. H. (Dyke & Ruscoe), Shrewsbury.
Davis, F. W. (Reddall, Osborne & Co), London.
Davis, K. G. (Armson, Ward & Co), London.
Dawes, J. G. (Stephenson, Smart & Co), King's Lynn.
Dinda, N. K. (formerly with S. R. Batliboi & Co), Calcutta.
Dunk, J. E. (Carpenter, Arnold & Turner), Brighton.

Earnshaw, S. J. (J. B. Garside), Douglas, Isle of Man.

Fisher, C. (Westbury, Schotness & Co), London.
Flitton, J. S. (Keens, Shay, Keens & Co), Luton.
Frankcom, P. J. L. (Farrow, Bersey, Gain, Vincent & Co), London.
Fuller, P. D. (Keens, Shay, Keens & Co), Luton.

Gamble, J. (Alexander, Sagar & Co), Leeds.
Gardiner, F. M. H. (F. C. Gardiner & Co), York.
Gardiner, L. H. (Hibbert, Sier, Woods & Co), London.
Gerrard, G. A. (Louis Nicholas & Co), Liverpool.
Gisbourne, F. E. (formerly with Aldred, Bell & Co), London.
Gordon, A. S. (Wm. A. J. Ling & Co), London.
Graham, J. (Laverick, Walton & Co), Sunderland.
Graney, D. F. S. (Lybrand, Ross Bros & Montgomery), London
Greenwood, E. (Croudson & Co), Leeds.
Griffiths, L. V. (Deloitte, Plender, Griffiths & Co), Cardiff.
Grigsby, W. R. (Barton, Mayhew & Co), Lisbon.
Grundy, H. (Buckle, Wilk & Co), Birmingham.
Gupta, G. C. (formerly with Singhi & Co), Calcutta.
Gwilt, A. (John Potter & Harrison), Blackpool.

Hamill, A. (Spicer & Pegler), London.
Hancocks, C. E. (Geo. O. Harrison & Co), Shrewsbury.
Hannam, A. F. (Deloitte, Plender, Griffiths & Co), London.
Hanning, S. W. (Hartley, Turner & Son), Manchester.
Harling, F. G. (Wheawill & Sudworth), Huddersfield.
Harris, R. C. (J. Paterson Brodie & Son), Stoke-on-Trent.
Hart, G. (T. E. Lowe & Co), Wolverhampton.
Hawkin, E. (Peat, Marwick, Mitchell & Co), Leeds.
Hawkins, K. N. (Cassleton Elliott & Co), London.
Heaps, A. A. (Halliday, Pearson & Co), Manchester.
Hearn, J. R. (Francis F. King & Son), London.
Heath, R. C. (Dixon, Wilson, Tubbs & Gillett), London.
Heron, J. M. (Rawlinson & Hunter), London.
Hildebrand, N. (Cole, Dickin & Hills), London.
Hill, D. R. (Jennings & Watkins), Neath.
Howell, J. W. (Peat, Marwick, Mitchell & Co), London.
Hunter, W. J. (Thomas May & Co), Leicester.

James, D. B. (Francis & Williams), Swansea.
Janes, S. J. (Spicer & Pegler), London.
Jeens, C. (Newman, Biggs & Co), Birmingham.
Jeffery, K. N. (Ball, Baker & Co), London.
Jenking, R. C. (City Treasurer's Office), Chester.
Jenkins, W. R. (Jennings & Watkins), Neath.
Jones, W. P. (Alfred Wright & Co), Croydon.
Jupp, W. L. (C. L. Dain & Co), Lichfield.

Keogan, S. D. (P. B. Bishop & Co), London.
King, J. W. (Gilberts, Hallett & Eglington), London.
Kirby, W. E. G. (Norman F. Kirby), Colchester.
Knowlson, A. W. (Singleton, Fabian & Co), London.
Kroll, J. U. (Cole, Dickin & Hills), London.

Ladyman, S. J. (Binder, Hamlyn & Co), London.
Lanham, B. C. (Annan, Dexter & Co), London.
Lawrence, L. L. (Clarkson Webb & Dewar), London
Ledger, I. R. (Samuda, Beresford & Co), Worcester Park.
Leonardi, E. (Burrows & White), Nottingham.

Lewis, E. D. (Henderson, Griffiths & Co), Cardiff.
Lewis, V. C. (Hodgson, Harris & Co), Dublin.
Ling, G. (Tunbridge, Lacey & Co), Lowestoft.
Lockyer, F. W. (H. Thomas & Co), London.
Lowis, R. A. (Price Waterhouse & Co), London.

Mallinson, S. (W. H. Sands), Leeds.
Manley, P. P. (R. W. G. Taper), Paignton.
Mather, D. (Cooper Brothers & Co), Liverpool.
Medd, T. F. (Pulleyn, Creer & Co), York.
Milne, A. W. (Deloitte, Plender, Griffiths & Co), London.
Mistry, D. M. (formerly with S. B. Billimoria & Co), Bombay.
Moore, A. G. (Shirley March, Bosworth, Cramp & Co), Leicester.
Moss, P. W. (Andrew W. Barr & Co), London.
Murphy, T. E. D. (Cole, Dickin & Hills), London.

Needham, C. E. (Pulleyn, Creer & Co), York.

Olsen, R. V. (Lithgow, Nelson & Co), Liverpool.

Pereira, R. S. (Deloitte, Plender, Griffiths & Co), London.
Perry, S. (formerly with Tunbridge, Lacey & Co), Lowestoft.
Piper, K. G. (Deloitte, Plender, Griffiths & Co), London.
Plummer, A. W. (Thompson & Wood), Hereford.
Porter, G. B. (Stone, Porter & Stone), London.
Potts, A. F. (George A. Touche & Co), London.
Pratt, B. (R. S. Dawson & Co), Bradford.
Pugh, J. B. (Hatfield, Dixon, Roberts, Wright & Co), London.
Pullen, W. J. (Fitzpatrick, Graham & Co), London.

Rawle, R. H. (Merrett, Son & Street), London.
Reason, W. M. (J. R. Watson & Co), Northampton.
Reeve, K. C. (Duck, Mansfield & Co), London.
Reffin, G. T. (Charles F. Beer & Co), Leeds.
Renshaw, C. S. (Cooper Brothers & Co), Manchester.
Richardson, J. (Alfred Nixon, Son & Turner), Manchester.
Riley, J. (Rawlinson, Greaves & Mitchell), Bradford.
Roach, P. I. (Morgan & Co), London.
Robinson, R. A. (Hodgson, Harris & Co), Hull.
Rowland, F. (Fred A. Fitton, Wilson, Smith & Martin), Manchester.

Samuels, R. A. (Critchley, Pigott & Knowles), Winchester.
Scriven, J. B. P. (Edwards & Edwards), Dorchester.
Sen, D. K. (formerly with G. Basu & Co), Calcutta.
Sessions, S. G. (Ham, Jackson & Brown), Bristol.
Settle, J. L. (F. A. Cawson, Webster & Co), Liverpool.
Seymour, J. H. (Hatfield, Dixon, Roberts, Wright & Co), London.
Sharp, L. (Borough Treasurer's Department), Halifax.
Shaw, L. B. R. (Peat, Marwick, Mitchell & Co), London.
Shires, J. A. (A. France & Co), Leeds.
Shooter, W. K. (Bolton, Bullivant & Co), Leicester.
Simpson, J. J. (Chantrey, Button & Co), London.
Sinstadt, T. B. (Peat, Marwick, Mitchell & Co), London.
Slade, Felice V. (Barton, Mayhew & Co), London.
Smart, A. G. (Myring & Bradbury), London.
Smith, H. A. (Hays, Akers & Hays), London.
Smith, J. W. (W. Vincent Vale & Co), Wolverhampton.
Smith, L. E. G. (formerly with Martin, Farlow & Co), London.
Spencer, B. (Sharman & Fileding), Leicester.
Staddon, J. N. (Keens, Shay, Keens & Co), London.
Stewart, R. I. (Winter, Robinson & Sisson), Newcastle upon Tyne.
Stokes, F. A. (Duck, Mansfield & Co), London.
Swann, F. E. W. (Burrows & White), Nottingham.

Taylor, D. J. (Layton-Bennett, Billingham & Co), London.
Thody, H. A. (Solomon Hare & Co), Bristol.
Thwaites, J. G. (Woodington, Bubb & Co), London.
Tomkins, A. B. (Mayhew & Lawley), London.
Tomsett, A. J. (Smallfield, Rawlings & Co), London.

Ulyatt, R. (James & Sanders), Wellingborough.

Vallance, W. G. (Thorne, Lancaster & Co), London.
Verity, L. (Williamson, Butterfield & Roberts), Bradford.

Ward, K. A. (Clarkson & Rumble), London.
Waring, R. (S. R. Fuller & Co), Leeds.
Washer, C. J. (Gibbons & Mitchell), Hastings.
Watson, A. F. (Hollings, Crowe, Storr & Co), Otley.
Watts, R. E. (Farrow, Bersey, Gain, Vincent & Co), London.
White, C. F. (Dunstan Adams & May), Nairobi.
Wood, A. S. (Frank Hall), Leeds.
Wood, P. A. (Victor W. Sayer & Co), Tolworth.
Worth, A. J. (J. B. Boyd, Wrigley & Co), Manchester.
Wright, I. (John Davies & Co), Wrexham.
Wright, L. (Armitage & Norton), Halifax.

168 Candidates passed ***267 Candidates failed***

FINAL EXAMINATION Part I only

Names on request to the Secretary

Candidates Passed (171)

INTERMEDIATE EXAMINATION

Honours Candidates (9)

First Place Certificate and First Prize
Wheaton, Michael Henry (Mullens & Robinson), Port Talbot.

Second Place Certificate and Second Prize
Adams, Hubert Theodore (Kilby & Fox), Northampton.

Third Place Certificate and Third Prize
Narielvala, Pestonji Mancherji (S. R. Batliboi & Co), Calcutta.

Fourth Place Certificate
Seed, John Desmond (Higson & Co), Nottingham.

Fifth Place Certificate
Bunn, William (Price Waterhouse & Co), Newcastle upon Tyne.

Sixth Place Certificate
Pitman, John Michael (Spicer & Pegler), London.

Seventh Place Certificate
Hender, John Derrik (City Treasurer's Department), Coventry.

Eighth Place Certificate
Mitra, Salil Kumar (G. Basu & Co), Calcutta.

Ninth Place Certificate
Hains, Douglas Walter Sainty (L. M. Bayliss & Co), Lincoln.

Candidates Passed (290)

Ashton-under-Lyne, Birtwistle, David Garfield. *Aylesbury*, Dobson, Hubert. *Bacup*, McKinneley, Ian. *Bath*, Burrows, Norman John; Lock, George Andrew Wilberforce. *Bedford*, Bean, Hubert Kenneth. *Birmingham*, Britten, Frederick John, B.SC.; Chandler, John Gordon; Flaherty, Alan John; Jennings, Stanley Wilfred; Ward, Ernest Robert; Wood, Raymond Kenneth. *Blackburn*, Smith, Colin Thomas; *Blackpool*, Cumberbatch, Ian, Maltman, Peter McIntosh. *Bolton*, Hughes, Arthur Leeming; *Bombay*, Cheryan, Poothicote Oommen, B.A.; Daruwala, Sham

Tehmurasp Byramji, B.COM; Kapadia, Pesi Jamshedji, B.COM.; Rao, Gady Krishna; Rao, Kesiraju Subba. *Bournemouth*, Hill, John Lansdown; Puddle, Peter Gordon; Threlfall, James Robert; Wells, Edward. *Bradford*, Glover, John Derek, Hall Philip Stuart; Lawrence, Derek; Lonsdale, Bryan; Smith, John Philipson. *Bridgnorth*, Breakwell, Francis Roy. *Bridgwater*, Pinckard, John Moore; Watts, Geoffrey Hancer. *Bristol*, Campbell, Ian James; Franklin, Royston Frederick. *Bury*, Burns, Neil. *Calcutta*, Bennett, Frank Constantine Denis; Choudhury, Kalika Prasanna, B.COM.; Ghose, Tapan Kumar, M.SC., B.SC.; Mehera, Bholanath, B.COM.; Sen, Bansi, B.COM. *Cambridge*, Aves, Kenneth; Thurley, Richard. *Canterbury*, Cozens, Ernest James. *Cardiff*, Broom, Anthony Ernest John; Burchell, Graham George Mark; Errington Peter; Littlestone, Neville; McLoughlin, Terence Vincent. *Chester*, Martin, Kenneth Alexander. *Colchester*, Harrison, Keith John. *Coleford*, Baker, Royston James. *Coleraine*, Hutchinson, Alexander. *Cork*, O'Leary, John Francis, B.COM. *Dewsbury*, Jones, David. *Douglas, I.o.M.*, Karran, Brian. *Dublin*, Baker, Arthur Richard; Banks, Donald Thomas; Healy, Liam Padraig; McQuillan, Kenneth Michael; Strickland, James Augustine; Walsh, John Francis. *Dudley*, Robinson, Geoffrey; Smith, Ian Martin. *Edinburgh*, Stewart, Victor Colvin. *Elgin*, Gow, Norman James. *Fareham*, Stroud, Frank William. *Glasgow*, Currie, John; Muirhead, Kenneth Frank. *Goole*, Hatfield, John. *Gravesend*, Dyer, Herbert George Samuel. *Grays*, Boughtwood, Roy Dennis. *Grimsby*, Craven, Alfred Edward; Nunn, Bryan Harris; Standaloft, George Brierley. *Halifax*, Harker, Godfrey Howard. *Harrow*, Thompson, Herbert Stanley. *Huddersfield*, Armitage, David Gordon. *Hull*, Cherry, Eric Harold; Dearman, John Charles; Gillingwater, Gordon Neville; Wallace, Alexander James; Waltham, Philip Anthony; Williamson, Eric. *Hungerford*, Quallington, William Henry. *Kelso*, Tokely, Albert Victor. *Kettering*, Darnell, John. *Kidderminster*, Bennett, Leonard John. *Leamington Spa*, Greenway, Richard Alan. *Leeds*, Agar, Brian; Bankes. Peter Derek; Castle, Denys; Cooper, Denis; Enderby, Ronald; Lord, David; Melia, John; Pemberton, John; Pinder, Thomas Elwood; Reast, Gordon Brandon. *Leicester*, Austin, Derek Arthur; Blundell, James Brian; Garside, Roger George; Harris, Trevor Henry; Swinfield, William Dennis; Tebb, Douglas; Tustain, Colin Roger; Williamson, Douglas Thomas. *Letchworth*, Oxlade, Richard Graham. *Limerick*, Power, Gerard Noel. *Liskeard*, Arnold, William Desmond. *Liverpool*, Carr, Norman Joseph; Davies, Joseph Alfred Thomas; Dunning, Henry Edward; Gale, Allan Gordon; Mulvihill, Peter; Ross, Alfred Thomas. *London*, Amsdon, Leslie George; Anderson, Arthur David James; Armour, Arthur Frederick; Arundell, Victor Charles; Attwood, Herbert Gordon; Austin, Clive; Barton, Derek Hugh; Beale, Gerald Montague; Benbow, David Thomas; Bennett, Leonard James; Blenkinsop, Gordon Penrhyn; Bradley, Derrick Arthur William; Bulmer, Kenneth; Burton, George Ashton; Carr, Raymond Harold; Charity, Michael Skelton; Charlton, Cyril Francis; Cheesman, Frederick Kenneth John; Chopping, Joseph; Collins, Leonard Horace; Coppard, Ronald Jack; Crane, Peter Edward; Crowe, Edwin Peter; Davies, Bernard Colson; Dockerill, Trevor Haydn; Don, Laurence; Donovan, John Edward; Driver, Jamshed Darab, B.SC.; Ellacott, John Gallon; Ellis, William George Edward; Emmitt, Raymond Linskill; England, Lawrence Geoffrey; Evans, Alan John; Every, Cyril Trevor; Fenn, Derek James; Fisher, David; Fuller, Peter Frank; Gardiner, Michael Henry; Garlick, David William; George Dennis Thomas; Gommon, Frederick Albert; Green, John Edwin Vernon; Groves, Patricia Elsie; Haydon, Terence William; Heckford, John Herbert; Herbert, Peter Gilbert; Hindson, Donald Buck; Holdway, Derek Dutton; Hollamby, Denis; Hollamby, Gerald Maurice; Hoy, Michael Neil; Hudd, Frederick Owen; Hudson, Kenneth; Hunt, Arthur Thomas; Johnson, Peter Brian; Jones, John James; Jenkins, Stanley Robert; Kenzie, Reginald Raymond; Knapp, Henry William; Laxton, George Percival; Lea, Conrad Richard Hilsden; Leach, Dennis Kent; Lennard, Stephen Michael; Levy, David; Markham, Kerridge; Martin, Kathleen Pamela; Maynard, Geoffrey Gilbert; Mulley, John George Ralph; Newington, John Edward; Oakley, Leslie Charles; Pain, John Edward; Parks, Stanley William; Powderham, George Edward; Powrie, David; Ray, Pete Kenneth; Rose, Barry; Scott, Brian Geoffrey; Seaward, Alan Rex; Seftel, Harold Harris; Seglias, Joan Kathleen; Sheppard, David Robert; Smale, John Leslie James; Smith, Eric Herbert; Stanton, Edward Albert; Stilling, Peter John; Stimpson, Michael Harborne; Tomlin, Peter John; Townsend, William Venn; Urquhart, Ronald Hyde; Velupillai, Seevaratnam, B.SC.; Virgo, Philip Donald; Wallis, Donald Edward; Wase, David John Nelson; Wellings, Alan Stanley; Whaley, Walter John; Winterton, Richard Anthony Hunter; Woodhams, Ernest James; Wright, Richard Lewis. *Luton*, Head, Barry Ronald. *Madras*, Prasad, Jonnalagadda Lakshmi Krishna, B.SC.; Thomas, Veembakatu Abraham. *Manchester*, Bird, William; Budenberg, Arnold John; Cockill, Alan Reginald; Davison, John Arnold; Ferguson, Frederick Hislop; Geddes, Bruce; Gilbert, Alan Clifton; Jordan, David; Marshall, Peter Izod; Metz, Alan; Stafford, Frank; Thompson, Laurence Henry; Thornley, Jack William; Webster, Derek; West, Margaret; Winnett, Thomas William Turvey. *Middlesbrough*, Bennett, Alan Maxwell; Stokes, Harold Nelson. *Nairobi*, Adams, Mervyn Hampton. *Neath*, Morris, David Hugh. *Newcastle upon Tyne*, Avery, Dennis; Baker, David; Daglish, Brian Calvert. *New Delhi*, Bhandari, Rajinder Mohan, B.A. *North Shields*, Patrick, Robin Air. *Norwich*, Cooper, Edward Horace Enoch; Le Grys, Rex James. *Nottingham*, Berry, Darrol Brian; Bertram, Peter John. Andrew; Brealey, Peter Herbert; Hart, David Patrick; Ley, Gordon Chaunter. *Oldham*, Evans, Kenneth. *Peterborough*, Gresham, John King; Middleton, Michael James. *Port-of-Spain*, Martinez, Peter Joseph. *Portsmouth*, Bampfylde, Ronald Victor. *Rugby*, Phillips, Graham Maxwell. *Salford*, Santhouse, Sidney. *Seaton*, Abrahams, Norman Victor. *Sheffield*, Hall, Alan Napier; Mitchell, Ernest; Richmond, John Gordon; Roddis, John Roland; Stagg, Denis. *Southend-on-Sea*, Francis, George William Mark. *Southport*, Blundell, Henry; Evans, John Martin Redhouse; Pickering, David Borland; Rimmer, Frank James. *Srinagar*, Krishen, Radha, B.COM. *Stirling*, McIntosh, James Andrew. *Sunderland*, Briggs, Denys Alfred; Hastings, John; Kirby, Reginald Harvey. *Surbiton*, Chapman, Norman Henry. *Swansea*, Bennett, John; Tonkin, Alan. *Swindon*, Jones, Elwyn Glyndwr. *Torquay*, Harris, Brian. *Uckfield*, Ogden, Anthony John. *Walsall*, Hinton, Donald Thomas; Page, John Watkin; Wolverson, Maurice Frank. *Watford*, Cripps, John William. *Wellingborough*, Hill, James. *Weston-super-Mare*, Collins, David John Stanley; Goddard, Terence Ivor. *Weymouth*, Cousins, Kenneth John. *Witney*, Jackson, David John. *Wolverhampton*, Skidmore, Neil Rayner. *Worthing*, Harle, Harold; Oluwa, Solomon Mojibola.

PRELIMINARY EXAMINATION

Honours Candidates (2)
Candidates Passed (42)
Names on request to the Secretary.

MODIFIED PRELIMINARY EXAMINATION

Candidates Passed (26)
Names on request to the Secretary.

The next examinations of the Society will be held on May 13th, 14th, 15th and 16th, 1952. Completed applications should reach the Secretary not later than Monday, March 17th, 1952.

Summary of Results

Candidates	*Final* Parts I & II	*Final* Part I only	*Final* Part II only	*Intermediate*	*Preliminary*	*Modified Preliminary*	*Total*
Passed ..	168	171	—	299	44	26	708
Failed ..	287	286	—	379	84	21	1,057
Total ..	455	457		678	128	47	1,765

Thirty-four candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part I only.

Ninety candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part II only.

NOTES AND NOTICES

Personal

MR G. SCOT SIMMONDS, F.C.A., practising as SCOT SIMMONDS & Co, Chartered Accountants, at 72 High Street, Teddington, Middlesex, announces that as from January 1st, 1952, he has admitted into partnership Mr ROY GARNER, A.C.A., who has been a member of his staff for many years.

MESSRS WESTBURY, SCHOTNESS & Co, of 14–18 High Holborn, WC1, announce that they have taken into partnership Mr BRIAN GRAHAM, A.C.A. The name of the firm remains unchanged.

MESSRS WHITSON, WELLS & Co, Chartered Accountants, of 8 Forres Street, Edinburgh, 3, announce that they have assumed as a partner Mr GEORGE ELLIOT DICKSON, C.A., who has for some years been their principal assistant.

MESSRS WEBB & HALL, Chartered Accountants, 90 Deansgate, Manchester, 3, announce that Mr PHILIP D. WEBB, B.COM., A.C.A., who has been associated with the firm for some years, was admitted into partnership on December 1st, 1951, and that the practice is being carried on under the style of WEBB, HANSON, BULLIVANT & Co, at the same address.

Two Assistant Official Receivers Appointed

The Board of Trade announces the appointment of Mr Norman Saddler as Assistant Official Receiver for the Bankruptcy District of the County Courts of Manchester, Salford, Ashton-under-Lyne and Stalybridge, Bolton, Oldham, Rochdale and Stockport; for the Bankruptcy District of the County Courts of Preston, Blackpool, Blackburn and Burnley; and also for the Bankruptcy District of the County Courts of Hanley and Stoke-on-Trent, Crewe and Nantwich, Macclesfield, Stafford, Shrewsbury and Newtown.

Mr Ronald William Francis Pagan has been appointed Assistant Official Receiver for the Bankruptcy District of the County Courts of Canterbury, Rochester and Maidstone.

These appointments take effect from January 21st, 1952.

In Parliament

DOUBLE TAXATION AGREEMENTS

Mr SMITHERS asked the Chancellor of the Exchequer whether he is aware that tax concessions made by colonial governments with a view to encouraging the establishment of new industries are being nullified by the operation of United Kingdom double taxation agreements; and whether he will take steps to prevent this.

Mr BUTLER: I am aware of the point with which my hon. Friend is concerned, but I cannot accept that the operation of United Kingdom double taxation agreements is to blame. Under these agreements, which have done much to foster development in the Colonies, the United Kingdom tax bill is reduced by the amount of the colonial tax. Colonial tax, in these circumstances, ceases to be an effective burden and a reduction of colonial tax is therefore inevitably of no avail as an inducement.

Hansard, Feb. 5th, 1952. Written Answers, Col. 101.

STAMP DUTY: PROPERTY TRANSFERS

Brigadier R. MEDLICOTT asked the Chancellor of the Exchequer if he is aware that the rate of 2 per cent stamp duty on the transfer of property bears heavily on people purchasing houses; and if he will take steps to reduce the duty to the former rate of 1 per cent.

Mr R. A. BUTLER: I cannot anticipate my budget statement.

Hansard, Feb. 5th, 1952. Oral Answers, Col. 805.

Public Works Loan Board

INTEREST RATES AND HOUSING SUBSIDIES

The Treasury has announced in accordance with the principle stated by the Chancellor of the Exchequer on November 7th last, that the rates charged by the Public Works Loan Board should reflect the true current cost of money; these rates will, as from Saturday, February 9th, 1952, be as follows:

For loans up to five years	$2\frac{3}{4}$ per cent
Loans for more than five but not more than fifteen years	$3\frac{3}{4}$ "
Loans for more than fifteen years ..	$4\frac{1}{4}$ "

The Minister of Housing and Local Government has sent to the local authority associations the Government's proposals for the new housing subsidies which, in addition to other adjustments, take full account of this rise of interest rates. The Secretary of State for Scotland has taken similar action.

The Institute of Actuaries

An ordinary general meeting of the Institute of Actuaries is to be held in the hall of the Chartered Insurance Institute, 20 Aldermanbury, EC2, on Monday, February 25th, at 5 p.m., when Mr Wilfred Perks, F.I.A., will submit a paper entitled 'The treatment of sub-standard lives in practice'.

Manchester Society of Chartered Accountants

Mr H. T. Nicholson, A.C.A., of Messrs Harmood Banner, Lewis & Mounsey, will speak on 'Where the Companies Act, 1948, fails', at 6 p.m. on February 25th, in the Chartered Accountants' Hall, 60 Spring Gardens, Manchester. There will be tea at 5.30 p.m.

The Chartered Accountant Students' Society of London

A dance for members of the London Students' Society and their friends has been arranged to be held at the Royal Festival Hall Restaurant, South Bank, on Saturday, March 8th. The dance is to begin at 7.30 p.m., continuing until 11.45 p.m., and there will be a running buffet. Evening dress or lounge suits will be worn.

Double tickets at £1 1*s* 0*d* are obtainable from the Secretary, Mr R. J. Carter, B.COM., F.C.A., at Finsbury Circus House, Blomfield Street, EC2, and applications should include remittance and a stamped addressed envelope. The number of tickets is limited and applications should therefore be made as early as possible.

Manchester Chartered Accountants' Students' Society

The second informal tea-party for recently-articled clerks, held on February 8th, was attended by forty-five articled clerks who have joined the Society within the last four months, and by ten members of the committee. The functions of the Students' Society were shortly explained by the President and Honorary Secretary, and reference was made to the work of the Joint Tuition Committee in connexion with Saturday morning lectures and residential courses. Once again the value of this innovation in ensuring that new-comers become acquainted with each other was demonstrated; and the event proved a useful stimulant to interest and enthusiasm among the Society's younger members.

The Nottingham Chartered Accountant Students' Society

The annual dinner and dance of the Society has been postponed until Friday, April 4th.

The Chartered Accountants' Hockey Club

Owing to weather conditions the hockey match between members of the Institute and articled clerks which was to have been played on February 6th, had to be postponed. However, a new date has now been arranged and the match will be played on February 27th at the Purley Cricket Club ground, Surrey, commencing at 2.30 p.m.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF FEBRUARY 17th, 1877

From 'Notes in Passing'

The Virtuous Ones!

We publish on another page a strange document which a correspondent somewhat ambiguously informs us was 'picked up near the Monument'. 'The Association of Virtuous Wholesale Dealers' must be of recent formation, for we candidly confess we never heard of it before, nor does the directory contain any allusion to it. But we live in an age of progress; and amid the deceit and villainy which seems at times so rampant around us, it is cheering to discern through the vitiated atmosphere of commercial life the bright reflection of a candle, evidently unaware of the existence of a bushel. Our correspondent entertains a very high opinion (!) of the members and objects of the association, as will appear from an extract or two from his letter. 'No one can deny', he remarks, 'that candour shines through every line of the manifesto, which I trust you will allow to appear in your pages. Everyone for himself, and the devil take, not only the hindmost, but all who, having been unfortunate, have become poor, and needy, and helpless – this seems the motto of the high-minded members of the association.' 'Go on, Virtuous Ones,' he adds by way of peroration, 'in the course you tread so industriously, and if ever you find yourselves in the Bankruptcy Court, may justice be meted to you in the same measure that you now mete it unto others.' We are glad to endorse so excellent a sentiment.

The Taxpayer

NEW SOUTH AFRICAN JOURNAL

We have received a copy of the first issue of *The Taxpayer*, 'a monthly journal devoted to the law, practice and incidence of income-tax and death duties', dated January 1952, published by Juta & Co Ltd, Cape Town and Johannesburg.

The Accountant

ESTABLISHED 1874

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CONTENTS

THE REVENUE AND EVASION

TAX evasion and the Board of Inland Revenue's efforts to deal with it continue to arouse interest. In our issue of June 2nd, 1951, at page 534, we referred to a criticism made by the Committee of Public Accounts. The Treasury replied to this criticism in a minute dated November 29th, 1951, and now made public.[1]

The Inland Revenue says that it had 1,500 trained inspectors at the end of the war, as against 1,700 at the beginning, that since 1945, 1,100 new recruits had been taken into training as Inspectors, that 750 of these were promotees from inside the department, and that this was as much as the service could reasonably digest. By the end of 1951 there would be 1,730 trained inspectors (the pre-war figure) and the number would be between 1,800 and 1,900 'during the next few years', the aim being a maximum of 2,000. The Board had decided against any supplementary recruitment, since the additional recruits might not be needed by the time they were trained. Transfers from other departments had been rejected as unlikely to produce many recruits of better quality or experience than those already available among the Board's own staff. The Board placed the utmost value on university recruitment, which rose from eleven to thirty-one in 1950 and might reach fifty in 1951. Inspectors were being encouraged to stay on after normal retirement age and to cut down examination of normal business accounts in order to leave more time for back duty.

One difficulty according to the Inland Revenue was the rapid increase in normal work: between 1945–46 and 1950–51 the number of profits assessments increased by over 40 per cent. The drive to find new small trading liabilities was expected to produce 35,000 new cases, yielding £4 million in the first instance and £2 million a year thereafter. The Treasury was satisfied that the Inland Revenue was fully conscious of the urgent need to uncover and deal with evasion of tax, and was successfully grappling with the staff problem – allowing for the difficulties inherent in any scheme to train large numbers of staff on practical work without hindering the performance of that work.

It would perhaps be unkind to darken this prospect by pointing out that even when, some unspecified number of years hence, the maximum complements are reached, there will still only be 300 more inspectors than before the war, when complicated capital allowances were unknown, profits tax was much simpler, and the national income considerably less. The current increase in Schedule D cases alone would absorb the whole of the 300, and the new excess profits tax will probably make nonsense of all these figures.

[1] H.M.S.O., 1*s* 3*d net.*

INCOME TAX CONSOLIDATION

LAST Tuesday the Income Tax Consolidation Bill received its second reading in the House of Commons. It has already passed through the House of Lords and its coming into force in time for the year 1952–53 is now virtually certain.

The drafting of the new Bill has not been hurried; it was begun in March 1949 and the draft was published as a White Paper two years later. Then in November 1951 a formal Bill was introduced in the House of Lords and was examined on December 4th and 5th by a joint committee of both Houses under the chairmanship of LORD RADCLIFFE, the amendments made by it being published on the 6th. As announced in our columns last week, the committee's report has now been published, together with minutes of evidence taken from SIR JOHN ROWLATT, Second Parliamentary Counsel, and MR R. O. NICHOLAS, Assistant Secretary, Inland Revenue.

Total Income for Sur-tax Purposes

Some interesting facts were emphasized in the course of the committee's proceedings. Perhaps the most interesting was the omission from the Income Tax Acts of any specific provision for computing total income for sur-tax purposes. Section 38 (1) of the Finance Act, 1927, provides for the imposition of sur-tax, instead of the old super-tax, on total income. Section 38 (2), which is reproduced as clause 524 (1) of the Bill, provides for two different ways of computing total income, depending on whether the computation is for standard rate purposes or for sur-tax.

Now there are no provisions setting out how total income is to be calculated for sur-tax. Section 42 (10) of the Finance Act, 1927 (not reproduced in the Bill), applied the super-tax provisions of the Income Tax Act, 1918, to sur-tax, but these provisions were repealed by the same Act and, accordingly, the subsection is referring to provisions which do not exist.

The point is material where the taxpayer receives, in one sum, taxed income covering several years. On the authority of Section 39 (2) of the Finance Act, 1927, he is at present required to treat the whole sum as income of the year of receipt, although it is clearly arguable that this subsection does not apply to sur-tax. Incidentally, Section 34, which provides a limited relief in circumstances such as this, is expressly confined to cases where the income is required 'for the purposes of super-tax' to be treated as income of the year of receipt, i.e. it refers in terms to super-tax provisions which have been repealed.

The draftsman attempted to solve this problem by expressly providing in the Bill that the successor to Section 39 (2) of the Finance Act, 1927, applied also for sur-tax. He observed that he had endeavoured to 'make sense of the thing'. However, as LORD SCHUSTER, a member of the committee, said, in reference to another provision, 'It is not our business to resolve difficulties but to consolidate doubts'. Thus, although the point has already been the subject of litigation, it seems to be still open to some enterprising sur-tax payer to take the point that arrears of taxed income should be spread backwards, irrespective of Section 34 of the Finance Act, 1927.

Marginal Life Assurance Relief

When the Bill was published, we pointed out[1] that clause 225 (5) differed in wording from the original provisions and involved a departure from the existing practice in relation to marginal life assurance relief. This relief is given in respect of certain payments, principally premiums on pre-1916 policies, where the taxpayer's income is only slightly below £1,000 or £2,000. It is computed by taking (*a*) tax at one-quarter of the standard rate on the allowable payments and (*b*) deducting from it tax at the standard rate on the amount by which the income falls short of £1,000 or £2,000, as the case may be. Section 9 (1) of the Finance (No. 2) Act, 1940, provides that 'in relation to' certain (not all) premiums paid, the standard rate is in effect to be taken at a maximum of 7*s* in the £. Thus, for the purpose of (*a*) the rate is one-quarter of 7*s* for some payments and one-quarter of 9*s* 6*d* for others; for the purpose of (*b*), which is not concerned with payments at all, the current standard rate has been applied. This interpretation, although against the taxpayer, seems on the whole to be correct. However, the Bill is now so drawn that

[1] *The Accountant*, March 31st, 1951, page 302, and December 1st, 1951, pages 528–9.

the standard rate is to be varied for (*b*) as well as for (*a*), which will give to the taxpayer more than the Revenue has been accustomed to allow him in all the years since 1940.

Our criticism gave rise to a discussion by the committee, and the view was expressed on behalf of the Revenue that its practice hitherto, although never challenged by any taxpayer, was wrong. It seems to us, however, that the wording introduced by clause 225 (5) raises more problems than it solves. If a taxpayer makes two payments ranking for marginal relief, one of which is subject to the 7*s* maximum standard rate and the other is not, so that the computation under (*a*) is partly at 1*s* 9*d* and partly at 2*s* 4½*d*, what rate is to apply to the computation under (*b*)? As now worded, clause 225 (5) gives no answer to this; far from consolidating old doubts, it appears to create a new one.

Public Annuities 'Free of Taxes'

One fact which clearly emerges is that the extraordinary patchwork of ingenious statutes which operate by reference succeed in confusing, not only the unfortunate public, but also the draftsmen responsible for them. For instance, the Income Tax Act, 1842, imposed income-tax for the first time since the Napoleonic wars. Section 187 prohibited annuities, among other things, from being paid free of income-tax, although the statutes under which they were paid might direct that they were to be 'free from taxes'. MR JUSTICE SCRUTTON subsequently held that Section 187 did not apply to statutes passed after 1842. Nevertheless, when the law was consolidated in 1918, Section 187 was reproduced, as Section 213, without any change of wording, so that its effect was to extend the prohibition to statutes passed after 1842 and before 1918. The section is again reproduced (as clause 512) in the new Bill without a change of wording, so that if MR JUSTICE SCRUTTON was right, the scope of the section is still further extended.

Clergymen's Houses

Another curious example is Section 22 of the Finance Act, 1919, which applies to rent-free houses of clergymen, occupied in such circumstances that the Schedule A assessment does not fall to be regarded as the clergyman's income for tax purposes. The section gives the clergyman an option to treat the Schedule A assessment as his earned income. Its effect is to grant earned income relief to the trustees who pay the tax, which the Revenue says is 'indefensible'. According to Parliamentary counsel, 1919 'was not a year in which careful consideration of matters such as this was at a premium' and the section was wholly misconceived. However, it still exists and duly appears in the Bill.

Co-operative Societies

Another misconceived provision is Section 31 (1) of the Finance Act, 1933, although presumably when it was passed the effects of the 1914–18 war had to some extent worn off. It arose in this way. Section 39 (4) of the Income Tax Act, 1918, granted exemption from both Schedule C and Schedule D to every co-operative society which did not both limit its members and trade with non-members. This exemption was in effect repealed by Section 31 (2) of the Finance Act, 1933. Section 31 (1) attempted to go a step further – it was designed to prevent any co-operative society from gaining any tax advantage on the grounds that its trading was mutual trading, and therefore not within the charge to income-tax at all. However, this principle of the immunity of mutual trading, as laid down in the courts, was so misunderstood by the draftsman that Section 31 (1) does not appear to achieve anything beyond a good deal of confusion. (See *Ayrshire Mutual Insurance Association v. C.I.R.* ([1946] 27 T.C. 331; 25 A.T.C. 103).) However, in case it may mean something, it is reproduced in clause 444 (1) of the Bill.

Evasion

Parliamentary counsel made an interesting observation about Section 227 of the 1918 Act (clause 505 in the Bill). He said that this section, which imposes a liability to six months' imprisonment on summary conviction for a false statement made to reduce income-tax liability, was unimportant: 'If you make a false statement in your return you will be sued infallibly for treble the tax in the usual way' (Section 132, Income Tax Act, 1918) 'and not prosecuted.'

Ultimate Codification

Speaking of ultimate codification, SIR JOHN ROWLATT said that consolidation would do it no harm, but whether or not codification would ever come about was disputable.

THE ROYAL COMMISSION

REPRESENTATIONS OF THE INSTITUTE OF TAXATION

THE representations of the Institute of Taxation under Head B of the memorandum of the Royal Commission on the Taxation of Profits and Income consist of a forty-four-page booklet which deserves, and will no doubt receive, close study by the Commission. Although the Commission's terms of reference preclude it from making recommendations which will reduce the total yield from income taxation, the Institute has quite properly included some representations which would have that effect.

Profits Tax

The Institute supports the widely held view that profits tax ought to be abolished, certainly if excess profits tax is to be introduced. The loss of revenue could be made up by simply increasing the rate of income-tax. Assuming that profits tax is to stay, the Institute recommends a considerable simplification; the abolition of the distinction between distributed and undistributed profits, or at any rate a more rational and comprehensible way of distinguishing between them.

Capital Gains

The Institute regards the distinction between capital and revenue for tax purposes, so painfully built up by a long line of cases, as reasonably satisfactory and is not in favour of a departure from it except in the case of premiums on leases which it considers to be of a revenue nature in essence and therefore proper to be taxed. It is against the taxation of capital gains as such; such a tax would be bound to include provision for relief in respect of corresponding losses, causing a disproportionate amount of work for a small net yield. Equally the Institute is against a capital levy and points out that the 2 per cent stamp duty on stock exchange transactions can be regarded to some extent as a capital levy already in force.

Schedules A and B

The Institute would abolish Schedule A and the complex code of law which has grown up on it, and replace it by Schedule D liability, thus freeing owner-occupiers from a tax which has little in logic to recommend it and involves a considerable amount of civil service man-power. By the same token, Schedule B assessments on amenity lands would go and the only other remaining subject of this Schedule, commercial woodlands, would be transferred to Schedule D with appropriate reliefs as compensation. Incidentally, the Institute complains that in the new Income Tax Bill the Schedule B provisions are scattered amongst Schedule A legislation in a completely unco-ordinated manner.

Personal Allowances

The Institute recommends a broadening of the band of income taxed at reduced rates, with a much smoother progression. It would introduce a sliding scale of earned income relief, decreasing from a half to one-tenth, the range being increased from £2,000 to £3,000, and would grant relief at the full rate on life assurance premiums. Personal allowances should be increased and housekeeper allowance extended to single taxpayers, while the income limit for age relief should be increased to £1,000 to reflect the fall in the value of money. However, in the case of husband and wife, the Institute would give each a single allowance of only £110, with a minimum of £190 for the two, where the wife had little or no income.

Administration

The Institute recommends that the assessment of sur-tax be decentralized to the local inspectors, with an option to the taxpayer to be assessed by the Special Commissioners, but that there should be no deduction of sur-tax from salaries, in view of the practical difficulties. It asserts as a constant source of friction between the taxpayer and the Revenue the fact that the latter has access to appeal decisions by the Special Commissioners; it recommends that such decisions on points of principle should be available to tax practitioners and that where an inspector refers to a decision he should be under an obligation to produce a summary of the case. Another suggestion in connexion with appeals is that it should be possible for qualified accountants to submit to the Board of Referees, or to General or Special Commissioners, a reasoned statement of facts (agreed by the inspector), asking for a decision in writing.

THE TOAD BENEATH THE HARROW

The Oversea Company and Section 36, Finance Act, 1951

by ALUN GRIER DAVIES, of Gray's Inn, Barrister-at-Law

SOME of the keenest debates on the Finance Bill of 1951 took place on the clause which ended up as Section 36 of the Act of that year. Prima facie it is difficult to see why legislation which affected such a small body of taxpayers – those having trading interests outside the United Kingdom – should have caused such general indignation. When, however, the section is seen against the background, not only of the balance of payments crisis, but of the special position of British interests oversea, it is clear that it is based on short-term fiscal needs as opposed to the long-term overriding benefits accruing to this country from oversea trade.

The section imposed prohibitions on companies controlled from this country both as regards any attempts they might make to transfer their central management and control oversea and also as regards their relationships with subsidiary companies controlled abroad. What the section achieved in fact, was an attempt to reverse an inescapable historical process, as inevitable as the political emergence first of the self-governing Dominions, and later of the Colonies. The tendency is for companies based in this country, and managed by United Kingdom residents, to migrate to those lands where lie the seat and source of their operations. In many of these cases – oil companies producing in foreign fields, plantation companies producing raw materials abroad, oversea mining companies, and overseas pastoral companies – it is possible to manage most of the operations at the place where the trade is carried on. It is doubtful whether the section can hope to prevent the tendency for such companies to emigrate oversea. It is even possible that it has touched off a further instalment of migrations (given this time under the authority of Section 36), judging from the applications and notifications published in the Press during the last few months.

Panic Measure has Ossified Pattern of Control

It is likely that early in 1951 there was a certain amount of fiscal panic on the part of the Government at the loss of United Kingdom tax that sometimes follows migration of British companies oversea. The panic is forgivable; the means adopted under Section 36 to allay it are not. If ever there was an example of misconceived legislation it is this section. The action of the Government in forcing it through in the Finance Act, 1951, is reminiscent of Mrs Partington or King Canute, whichever was most foolish. One can only assume that in the heat of the Finance Bill debates the sponsors of the Bill had overlooked the fact that in the eighteenth century the stupid use of the fiscal weapon lost us the American colonies. When the Bill was under discussion, prophecies were freely made from many quarters that it would accelerate, not hinder, the very process that it was intended to stop; that it would cause ill-will and bad blood in many oversea territories; and that it would frustrate the national interest to sustain oversea trading interests. The colossal misconceptions and fundamental ignorance that underly the section are really worthy of a Burke. It is surprising that at a time when the Government of this country should have been showing a real appreciation of the difficulties facing the expansion of British interests abroad, it should have chosen to tamper with the delicate network of oversea interests. It is to be hoped that the experience of the Government in administering the section to date has led to the conclusion that it is unsound and ought to be repealed.

Inflexible Pattern

The basic idea behind Section 36 is that there is a fixed pattern by which British interests oversea can be managed and controlled, that pattern being a board of directors resident in the United Kingdom. It appears to be the main object of Section 36 that this pattern should remain inflexible. In practice, of course, the pattern of control over oversea interests is extremely varied. In some territories it may be advantageous to operate as a branch, in others by means of a local company on which local interests are well represented. In some parts of the world it is almost fatal to be classed as a non-resident company. So slender is the foothold of British interests in some parts of the Middle East, for example, that local management and control represents the only formula for survival. It is obvious that

refusals to blend policy in accordance with the wishes of local nationalisms must result in discrimination against British interests oversea, followed probably by loss of resources and loss of markets.

It is also implicit in Section 36 that a British board of directors holding share control of companies operating outside the United Kingdom holds the strings to which the puppets dance. Such a view is contrary to the facts, and it may lead to a great deal of damage to the relationships between British interests and their foreign affiliates if the delicate relationship between largely autonomous local boards and their British principals should be clumsily upset by the interference of the United Kingdom Treasury. The idea that the Treasury can interfere in this relationship is essential to the working of Section 36. But it would be a bad thing if it was thought abroad that guidance from London is subject to arbitrary and unsympathetic interference from the Treasury.

Effect on Colonial Development

One of the unfortunate results of Section 36 has been the effect on foreign and Commonwealth governments. It was stated in the House of Commons by Mr Walter Fletcher that in his opinion the section was likely to have a most disruptive influence on the Commonwealth. The criticism was also made that the section would prevent the legitimate expansion of colonial development schemes by private industry. The fact that there have been no refusals by the Treasury where such schemes needed consent under Section 36 presumably means that the Colonial Office has convinced the Treasury that any vetoes on colonial trading development would have harmful effects out of all relation to the fiscal loss involved, and that in its relation to the Colonies the section is dead. It is a good thing that the Colonial Office, through its access to the Treasury, has killed the section in relation to the Colonies. British interests oversea outside the Colonies have not, however, had the same protection from Treasury interference, on fiscal grounds, in their legitimate business developments.

Foreign Governments are Critical

Foreign governments, always likely to look askance at oversea companies operating in their territories, have on occasion criticized the right of the United Kingdom Treasury to take its toll of profits made within their jurisdiction. While the United Kingdom has always conceded the foreign government's prior right to tax British companies operating abroad, the foreign government has not always appreciated the British Government's assertion of the right to tax all companies resident in the United Kingdom, wherever operating. They are even more unlikely to admit the right of the Treasury, not only to take its share of profits, but to preserve a right of veto over the way British interests oversea conduct their domestic business in oversea territories. It is even likely that the passage of Section 36 has inspired other governments to act in a similar restrictionist fashion: India is an example. From time to time other countries have imitated and copied the best features of our taxation and commercial codes: the British Government cannot very well complain if these same disciples learn the perverse lesson which the British mentor has taught by the passage of Section 36.

Effect on Oversea Associates

During one stage of the Parliamentary struggles that marked the birth of this much lamented section, it was suggested that it was hardly apposite to exhort the British merchant venturers to even greater enterprise abroad, and in the same breath to warn them that their further progress must be slowed down by the fetters and restrictions of Section 36. One particular point was emphasized, namely, that it was often necessary for British interests abroad to enter into local partnerships with local interests, to preserve and extend their footholds in oversea territories. Section 36 practically brands such arrangements as tax evasion schemes entered into for the purpose of robbing the United Kingdom Treasury, when in fact they are often essential if British interests are to be preserved. What could be more repulsive to the local associates in a British enterprise if they suspect, as well they might, that their British partners are not free agents, that they cannot deal with any matter concerning the structure of the trading organization without reference back to the United Kingdom Treasury? In such circumstances the local associates could not be blamed if they avoided London links as they would the plague.

Government should match Action with Words

At this time, the text on which the British Government is preaching to British industry is 'Go ye into all the world . . .'. The Government should in fairness make it plain that British oversea interests go abroad at their own risk and must tread a narrow and painful path wherever

they go. If they are compelled, in oversea territories, to pay import taxes, pay-roll taxes, or production taxes, none of these taxes is available for double tax relief by the British Government in the United Kingdom. The fact that British interests trade in territories where the government is so suspicious of figures that it will only levy taxes on such things as are physically checkable is merely unfortunate. The British Government stands pat on the dictum that the income-tax is a capital tax; nothing else qualifies for double tax relief, except a profits tax.

Once upon a time the Spanish empire tried to regulate trade in oversea territories. The rigidity of the pattern produced the sterility one would have expected. Did the British Government in passing Section 36 merely try to prove that there is only one lesson to be learnt from history, that we learn nothing from history? It is too late now to undo the harmful impression which the restrictionist nature of the section created abroad; but its early repeal could remove the idea that the status of British oversea interests is the freedom of the ticket-of-leave man. We seem to be at the beginning of another period of siege economy. Very well then. Let the foraging parties which go out from the island fortress be rewarded for their enterprise. First, Section 36 should go, *in toto*. Then a suitable reward should be given to those who supply the essential raw materials and foodstuffs to maintain the fortress. The system that 'from him that hath not shall be taken away even that which he hath' (the levy of United Kingdom tax on blocked profits) should be abolished. And oversea profits should be either exempted entirely from United Kingdom tax, because of the special features of trading operations oversea, or at the very least, only assessed when the profits are remitted to this country.

ACCOUNTING BY ELECTRONICS

NEW RESPONSIBILITIES OF THE PROFESSION

by J. SANDFORD SMITH, A.C.A., F.I.I.A.

Stages of Accounting Development

I BELIEVE the accountancy profession today faces more revolutionary changes in methods and procedures than it has ever had to face before in the history of record keeping.

I have spent a good number of years studying mechanical accounting methods and practices and have lately begun to try to understand electronic accounting machines, but their scope is so great and their operating speed so fantastic that it is hard to get more than a glimmer of the shape of things to come.

Scientists tell us that the fastest possible reaction of the human brain is about one-tenth of a second, an electric relay operates at one-thousandth of a second, an electronic valve at one-millionth of a second.

With this formula, calculate just how long it would take, firstly, the existing relay machines and, secondly, a human being working a forty-hour week to carry out the calculations which can be done electronically in just one single hour.

This simple little calculation at least gives some idea of the scale of change.

I do not think anyone today can prophesy how fast progress will be nor to what extreme ends these almost human machines will be developed.

One of the most important factors in speeding up development is that members of the profession should know and understand the capabilities of accounting by electronics and should educate the business world in it. From this there will grow a demand for the provision of machines to fulfil the needs of industry and commerce. This country before the war led the world in electronic development and I hope we accountants can ensure that we lead in the field of electronic accounting.

Just how great are the changes that we are now facing can best be seen if one glances back through history to see the principal historical developments.

Development of Accounting is Wholly Functional

It is generally acknowledged that the development of accounting has been wholly functional. That is to say, there have been no accountancy inventions in the sense of the invention of the steam engine, electric power or radar. Accountancy methods have gradually and slowly evolved to meet the changing demands made on them by industry and commerce.

Based on an address delivered to the London and District Society of Chartered Accountants on November 28th, 1951, with Mr G. D. F. Dillon, F.C.A., President of the Society, in the chair. Additional technical information was given at the meeting by Mr A. W. Bowyer, M.A., Barrister-at-Law, patent adviser to a leading firm of accounting machine manufacturers.

I see only four stages in the development of accountancy; written records, so far as we know, began fairly contemporaneously about 3,000 B.C. – nearly 5,000 years ago – in the Nile Valley and at the top of the Persian Gulf.

One can see Sumerian inventories, on baked clay tablets, and Egyptian income and expenditure accounts, on papyri, in the British Museum. The design and layout of these statements prepared so long ago is almost precisely that which we would use today.

There seems to have been no substantial change in accounting methods from that date until the fifteenth century when, with the rise of Venice as a trading state and the granting of trade credits, the second stage in the development of accountancy took place as a natural and logical development – double-entry book-keeping.

The third stage came more quickly; the industrial revolution of the eighteenth century, bringing in its train the new manufactories, put a new demand on the accountant – for cost accounting and manufacturing accounts.

Now we are in the throes of the fourth stage. Technical developments in automatic machines and in mechanical processes have given birth to the large industrial unit. Rapid communications in turn have enabled these large units to be welded together into even greater organizational groups. In the very large organizations of today masses of figures have to be recorded and co-ordinated. Accountants have met this new need by mechanized accounting, the electric accounting machine and punched-card systems.

And now, quite suddenly, the almost frightening potentiality of electronic accounting is put before us to use or to misuse.

Development of Electronic Calculating

Few of man's fundamental inventions can be attributed to any single individual. A germ of thought in the brain of one man is developed by another, passed on to a third, adapted and approved by a fourth, and so on. As far back as 1830 the English mathematician and actuary, Charles Babbage, received a Government grant to build an analytical machine whereby long chains of calculations could be performed. In 1879 Lord Kelvin, the great British physicist suggested solving differential equations by machine. In 1925 Dr Bush of the Massachusetts Institute of Technology, and his associates, began actual experiments with machines for this purpose. In 1939 Dr Stibitz and Bell Telephone Laboratories constructed a complex computer for multiplying and dividing complex numbers.

An automatic sequence control calculator was built for Howard Aiken of Harvard University, a relay calculator which began work in 1944. This machine was followed by a pluggable sequence calculator again using electric relays, built by an American business machine firm for the Aberdeen Proving Ground. This was then followed by another machine, built by the Moore School of Electrical Engineering, which came into operation in February 1946; it was genuinely electronic, and was followed by a selective sequence controlled calculator in New York in January 1948.

The first electronic computer operating in England was probably that of Dr Wilkes of Cambridge University. Now we have a number under construction or operation.

What can Mechanical Brains do?

What can these new mechanical brains do? An excellent American book on the subject[1] sets out twelve outstanding capabilities:

(1) Learn what you tell them.
(2) Apply the instructions when needed.
(3) Read and remember numbers.
(4) Add, subtract, multiply, divide, and round off.
(5) Look up numbers in tables.
(6) Look at a result, and make a choice.
(7) Do long chains of these operations one after another.
(8) Write out an answer.
(9) Make sure the answer is right.
(10) Know that one problem is finished, and turn to another.
(11) Determine most of their own instructions.
(12) Work unattended.

This book also gives four very important things they cannot do which every wild animal does throughout its life:

(1) Do intuitive thinking.
(2) Make bright guesses, and leap to conclusions.
(3) Determine all its own instructions.
(4) Perceive complex situations outside itself and interpret them.

Already the development of these machines seems to be running on two entirely different paths. The first largely in connexion with scientific development and, of course, rearmament. The second for accounting and record-keeping.

As an example of the first group I would quote a machine of which the speed is so great that it can assimilate radar data and make the necessary calculations quickly enough to effect control of a rocket in flight.

The application for accounting and record keeping is in turn developing along two separate lines. Firstly, here and now there are available in this country a standard range of electronic tabulating machines which represent a modification of the electric relay tabulating and multiplying machines which carry out much the same sort of work but do it more quickly.

Machine designed for Particular Needs

Secondly, there is the special purpose large machine designed for the particular needs of an organization. As an example of the kind of work it is possible to

[1] *Giant Brains*, by Edmund Berkeley, John Wiley & Sons Inc, New York.

handle electronically I would instance the following case:

Into the machine there can be fed the detailed price list and table of discounts, trade and cash and any special discounts applying to special customers. Into it too there can also be fed details of all customers' code numbers and details of each route covered by motor vans. Finally, day by day the amount of each line of goods available for sale that day with specified alternatives when one line has been sold out, and further alternatives when the first alternative has been sold out.

Having been given this preparatory information it is only necessary for the machine to be given the daily orders when it will calculate the price of the goods and apply all appropriate discounts. When the invoices are sufficient to absorb any particular lines it substitutes the first alternative and when this is absorbed the second alternative. It calculates all quantity discounts, makes a total and gives cash discounts and big user discounts, etc. It provides an invoice for the customer; it provides a series of loading notes, produced in such an order that the goods can be put on the motor van and the goods to be delivered first will be the last to be put into the van where they are at once accessible. Throughout all its work, it is checking itself.

The fundamental development in regard to these electronic brains is that they can store not only data but also a long series of instructions with alternatives operating on the data. From the accountant's point of view the other particular feature is the creation of new storage devices.

Millions of Calculations

In solving differential equations and other such mathematical problems, electronic machines are called upon to make a great many calculations – literally millions – starting with a relatively small number of figures. Accountancy goes very much the other way round. By comparison, there is a very large number of figures to be recorded but any one figure or even a collation of a set of figures is itself used a relatively small number of times. The basic need of accounting is the ability to store and to take out of storage at will – and very quickly – a great mass of figures. One outstanding difference between electronic accounting and all previous attempts to mechanize accounting lies in the range of new storage devices. For example, storage in the form of electrical impulses in a mercury delay tube or as a magnetized spot on a drum, or as a point on a cathode-ray tube. All a wholly new conception to us accustomed to storage by written words and figures on paper or visible holes in cards.

With electronics we are at the stage that the aeroplane was in about 1920. Man knew how to make a heavier-than-air machine that would fly. All the principles had been worked out. Within thirty years from that time the world has become girdled by a complex air transport system.

So with electronic calculating machines, the principles have been worked out, dozens of machines of various kinds have been built, few of the large machines have yet been fully developed on accountancy but accountancy represents in principle nothing different from the calculating and recording which the machines have proved themselves capable of doing.

The Accountant and Electronic Accounting

In terms of time-span, the first stage of accounting lasted some 4,000 years; the second one some 400, the third one 200.

How long have we got to accustom ourselves to this next one? This must depend principally on the political situation. If, for example, we have to face yet a third world war with its heavy demand on manpower, then labour-saving appliances will have another rapid stage of development.

Surely we must face the fact that even without the impetus of war, within the next twenty to thirty years accountancy will undergo a change greater than any it has faced up to now.

Electronic accounting is after all not a pipe dream of the future, it is something with us here now today.

It seems to me that our duty, if we are to promote the best interests of our profession, is to try and understand what these machines are capable of. Not many of us are equipped to appreciate the complex mathematics by which they perform their tasks, but just as it is not necessary for man to know the mathematical and electronic theory behind television before he can use and enjoy a television set, so I do not think it essential that we should become electronic engineers before being able to use electronic machines.

The first and perhaps greatest difficulty to accountants in assessing the potentialities of electronic calculating machines is that they have to project their thoughts into a sphere which is probably wholly unknown to them.

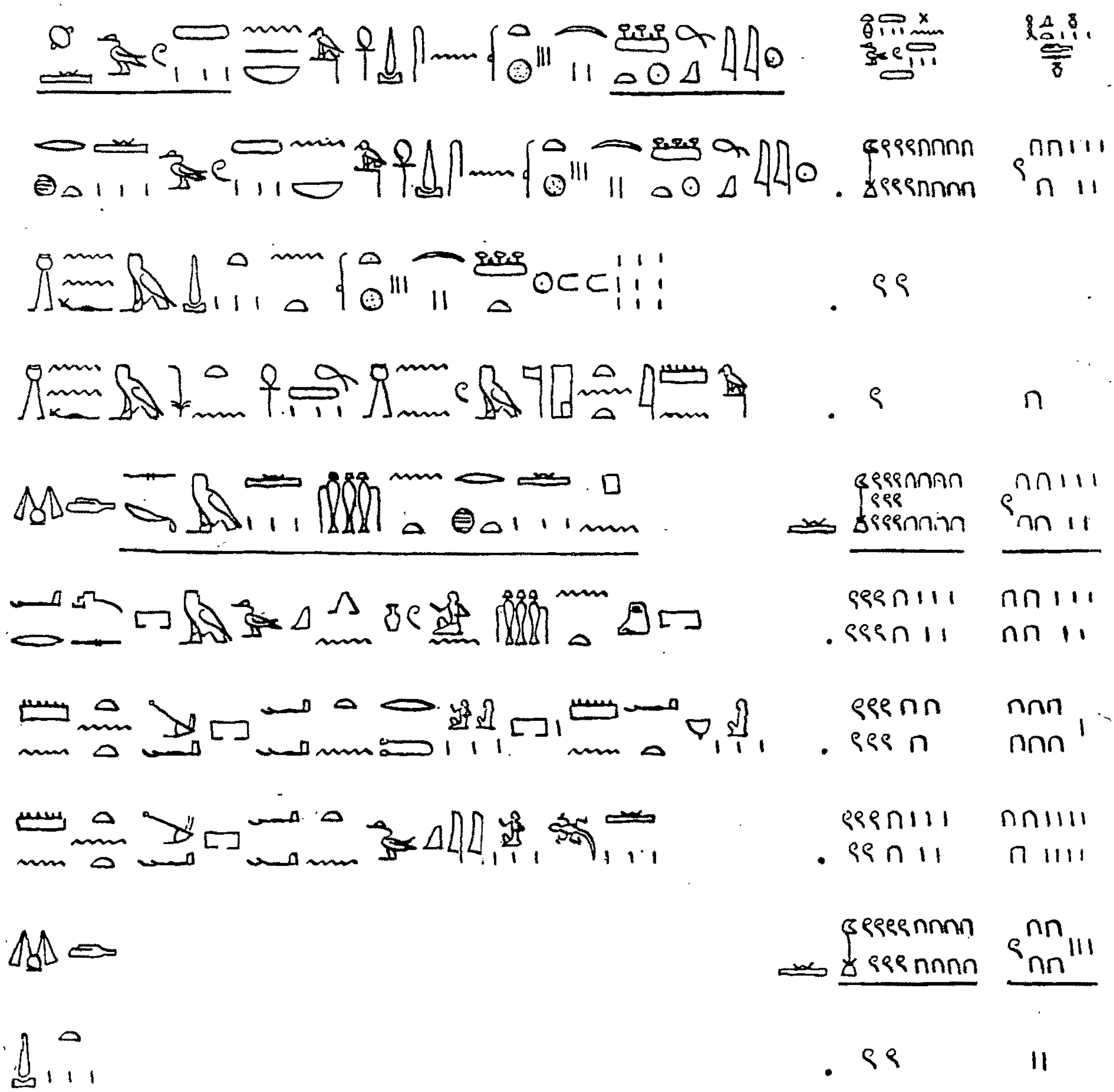
Egyptian Records

If you look at the accompanying example of Egyptian records[1] prepared 4,000 years ago, the general framework of the accounts becomes immediately plain.

So we can look back 4,000 years and find ourselves amid things we know; but when we look at the electronic calculating machine of today and of the next few years and we have to try and understand the idea of figures stored in the binary system in non-visual form, we are entering into fields which are hard for us, as practical men of business, to understand. I believe accountants have a particular responsibility in studying this subject today.

With this great change to electronic accounting, it is to be hoped that we may take our part in the vanguard with the forward thinkers rather than remain with the grumbling camp followers.

[1] Reproduced by kind permission of Sir Alan Gardiner from his Egyptian Grammar.



ACCOUNT OF THE REVENUE OF THE LORD (may he live, be prosperous and be healthy) of yr. 3, second month of inundation, last day	*Various kinds of bread, loaves*	*Beer* des-*jugs*
Amount of the revenue of the Lord (may he live, be prosperous and be healthy) of yr. 3, second month of inundation, last day	1680	135
Was brought to him as balance of yr. 3, second month of inundation, day 29	200	
Was brought to him as king's victuals(?) which are brought from the temple of Amun	100	10
Total	1980	145

EXPENDITURE OUT OF THIS AMOUNT.

Was given into the palace at the entry of the butler of the harîm	625	45
Ration of the ergastulum which is given to the people of the house of the nurses	630	61
Ration of the ergastulum which is given to the ordinary members of the household	525	38
Total	1780	143 (sic)
Balance	200	2 (sic)

WEEKLY NOTES

Cost Accountants' Examinations

The results of the December 1951 examinations of the Institute of Cost and Works Accountants have been announced in respect of 3,250 home and oversea candidates.

A total of 1,369 candidates sat for the Final, of whom 406 (30 per cent) passed and 963 failed. The First Place, which carries with it the 'S. Laurence Gill Prize', was awarded to Mr Kenneth Parker Stanworth, of Josiah Parkes & Sons Ltd, Manufacturers of Locks and Builders' Hardware, Willenhall, Staffordshire. The 'Leverhulme Prize' in Costing was awarded to Mr John Gordon Michie Birss, of King-Aircraft Corporation (K.A.C.) Ltd, Glasgow, and the 'Donald L. Moran Prize' for factory organization was jointly awarded to Mr Godfrey Oliveira Jennings, of Shell-Mex and B.P. Ltd, London, and Mr Royston George Venning, of the Ministry of Supply, Royal Ordnance Factory, Irvine.

At the Intermediate examination there were 1,881 candidates of whom 776 sat for Part I and 273 (35 per cent) passed. For Part II, 833 candidates sat and 403 (48 per cent) passed. In Parts I and II there were 86 (32 per cent) successful candidates out of 272.

The names of successful candidates in the Final examination held at the home centres, together with a summary of the home results, appear on another page.

Estate Duty and the Family Business

The Association of British Chambers of Commerce has sent a second memorandum to the Chancellor of the Exchequer on the subject of the coming Budget. It is a thorough and well documented treatise on the harmful effects of the present estate duty in relation to the assets of the smaller businesses. The recent statistical investigation carried out by the Board of Inland Revenue on this topic[1] comes under heavy fire and indeed it does not appear to have produced much of value. The memorandum also produces figures to show that the market value of quoted shares is very often only a fraction of the balance sheet assets value – a fact which emphasizes the penal nature of the valuation provisions of the Finance Act, 1940. The memorandum points out that the family business, which is now so much under fiscal attack, has characteristics worth preserving in the national interest, that inflation has increased the estate duty burden for such businesses more than for public companies, that the harsh effects of present taxation promise to be disastrous to an essential section of the country's productive resources. It recommends a substantial lowering of rates for estates over £20,000, with exemption for the first £2,000 of all estates, and that to avoid forced sales of business assets duty should be payable by instalments over, say, five years. Open market value should be the overriding principle for the valuation of shares, the provisions of the Finance Act, 1940, being reserved for pure avoidance transactions, and there should be a right of appeal to the Board of Referees as to the valuation of unquoted shares and business interests.

[1] See *The Accountant*, July 21st, 1951, at page 49.

The F.B.I. and the Tucker Report

The report of the Millard Tucker Committee on the Taxation of Trading Profits has been the subject of detailed criticisms in a memorandum which the Federation of British Industries has submitted to the Chancellor of the Exchequer, the Royal Commission on the Taxation of Profits and Income, and the Inland Revenue. The Federation still thinks that the introduction of the current year basis of assessment on profits is feasible and answers the Committee's criticisms on this point. It still advocates the spreading back of losses and also the spreading of all earned income for sur-tax purposes. The Federation returns to the charge on the question of computing assessable profit in an inflationary period. It restates the case and advocates additional capital allowances in respect of assets whose replacement cost has risen above their historical cost, such additional allowances to be calculated by reference to the price rise. As for stocks, taxpayers should have the option to adopt the LIFO principle.

The memorandum also deals in detail with a number of other subjects contained in the Tucker report.

Shares of no Par Value

The text of the private members' Bill to amend the Companies Act, 1948, by providing for shares of no par value, has now been published. Under it a company would be able to divide its equity share capital, i.e. broadly speaking its ordinary share capital, into a specified number of so-called 'common shares' with no nominal value. An issue of common shares would have to be paid for in cash within six months. Additional common shares at a price below the price of issue of existing ones would have to be first offered to the holders of the latter.

Some of the provisions of the Bill are not very happily worded; if the principle is accepted it is hoped that the phraseology will be tightened up. In particular, the proviso to Clause 7, which requires payment in cash for common shares, recites that nothing in the clause 'shall prevent the issue of common shares to members of a company in connexion with the capitalization of its reserves'. This could give rise to uncertainty.

Continued Gold Drain

There is little sign yet that the gold drain which developed last autumn has been notably halted. The gold and dollar account figures from the United States continue to suggest that there is a continued drain on Europe's gold resources westward. It is not

possible to say which countries are making the largest contribution to the flow, but it would be surprising if this country and France were not largely responsible. Usually, this country in particular provides most of the two-way trade in this market. The recent weakness of the French franc may have had some effect on the outward flow of French resources of late but it would be unwise to assume that this possibility accounts for the substantial gold and dollar drain to the United States until there is more substantial proof that this is so.

Meanwhile the gold drain to Europe from this country goes on. The actual E.P.U. deficit in January was not particularly disturbing. It was slightly higher than in December at £54 million and this figure is some 25 per cent better than the monthly average for the last quarter of 1951. Owing to the way in which the cumulative accounting in gold payments works, however, this country has become liable to pay 80 per cent of its deficit in gold. At this rate it will not be long before Britain is paying off its monthly E.P.U. liabilities in gold to the tune of 100 per cent.

There is little sign in the January deficit that the restrictions imposed last November on imports from the Continent are having either a rapid or telling effect.

Size of Life Policies

An interesting analysis of its life business for three key years over two generations has been made by the Scottish Widows' Fund and Life Assurance Society. The very large increase in the amount of business written for policies of £1,000 and over comes out clearly in the table which is set out below. The figures relate to ordinary life policies and exclude such items as pensions schemes and reassurances.

Policies with sums assured	No. of Policies as per cent of total		
	1951	1938	1913
Under £1,000 ..	42·1	67·2	81·3
£1,000–£2,499 ..	46·4	27·3	15·6
£2,500 and over ..	11·5	5·5	3·1

It would be wrong to take the experience of one company as a basis for ready generalizations about the popularity of larger policies. On the other hand, the figures are in sympathy with the observed trend of life business to reach new records in succeeding years, especially of late. It has been noticeable too that whereas industrial life business has lost some of its impetus this has not been true of larger policies, meaning by that those not collected from door to door. This year's figures for all the life offices may cast some further interesting light on this matter.

There is certainly a growing amount of evidence that heavy taxation and other forms of capital consumption are driving medium-sized individual savers to view with increasing approval the opportunity of saving for later security out of current income.

Record Exports in January

Provisional external trade figures for January show an improvement on the state of affairs experienced during the closing weeks of 1951, but there are several disquieting points to be observed about the figures. It is clear that the usual seasonal improvement is now under way. Total exports are estimated at £264 million for January compared with £213 million for December. This includes re-exports. Imports also advanced, however, and in consequence the conventional adverse balance was reduced by only about £8 million on the month. The actual deficit for January was £93 million and that for December was just under £101 million.

Continued high import prices are therefore still playing a large part in keeping the external deficit at a seriously high level. A record for exports has been able to make only a slight impression on the trade gap.

The other cause for continued concern is the poor performance of exports to the dollar area. Last month they were better than in December and they are now running at a rate which is higher than was operative at this time in 1950. In January exports to North America were £19·4 million compared with £15·3 million in the first quarter of 1950, but compared with £20·7 million in the same quarter of 1951. Perhaps too much attention should not be paid to seasonal movements in exports to any one set of markets. But it is worth recording that the monthly average for 1950 was £19·9 million and for last year £22·8 million.

New Savings Banks Limits

A Treasury statement has this week fixed a date from which the new upper limit to savings banks deposits will come into force. It will be recalled that as long ago as last August, Lord Mackintosh, the chairman of the National Savings Committee, announced that higher limits would come into force for holdings of Defence Bonds and Post Office and Trustee Savings Banks deposits.

The limit on defence bonds was raised from £2,500 to £3,000 for individual holdings as from October 1st. No date was fixed for the other two saving media until this week. It is now announced that the limit moves up to £3,000 as from March 1st. No more than £500 can be deposited in any one year.

This change is a tacit admission from the authorities that the value of money has been declining. By itself, it is doubtful if a change in maximum holdings can make a really significant difference to the amount of saving which the community will do, although there may well be some improvement in the savings banks' deposits for a time. Changes such as this one are somewhat comparable to small alterations in the rate of interest on deposit accounts. They are a gesture to a community reluctant to save (or even unable to save) in times of rising prices. But they do not – indeed they cannot – inculcate a sense of thrift in times of inflation.

FINANCE AND COMMERCE

New issue activity continues to be the main feature of stock market business. Competition from attractive new offers is depressing prices of existing issues which also suffer lack of support through Budget uncertainties. Turnover generally is small.

Birfield Industries

The reprint this week gives the accounts of Birfield Industries Ltd. The company is under the chairmanship of Mr Herbert E. Hill, F.C.A., and the American nationality of two of the six directors gives a clue to an interest in the business held by the Dana Corporation of America. The company is entirely a holding concern, among the subsidiaries being the Laycock Engineering Co Ltd, which makes the 'de Normanville' overdrive for motor-vehicles.

For all the companies, says Mr Hill at the opening of his review, it has been a year of intense activity; output increased substantially and a larger apparent surplus was earned. Mr Hill's review is particularly interesting for its news of two important accounting developments.

An accurate survey is to be made during the present year of the replacement cost of the fixed assets. This valuation will provide the basis for future depreciation, and stockholders, Mr Hill adds, must be prepared for a very much larger charge for depreciation in future years.

Another aspect of the financial position to which Mr Hill draws attention is the provision for taxation on profits to be paid on or before January 1st, 1953, amounting to £1,220,300. It is clear, he says, that profits for the present year are heavily mortgaged for this purpose and if unfavourable times should come, the future tax payable would constitute a serious burden on the company.

Quarterly Profits

The other accounting development is the institution of a quarterly profits statement. The figure, to be published by announcement to ordinary stockholders, the Stock Exchange and the Press, will be the net trading profit before deduction of tax. Profits of partly-owned subsidiary and associated companies will not be included in respect of dividend which may be received from them and the actual published figure will be approximate to the extent that no physical stocktaking will take place except at the end of the financial year.

A start is made with the quarterly profit statements by Mr Hill's announcement that the net trading profit for the three months ended November 30th, 1951, on the above basis was £431,000. The next statement of profit will be issued in April, covering the three months to February 29th.

With the Birfield accounts is an announcement of an employees' profit-sharing scheme. It is 'necessarily complicated' but, in brief, gives employees with a long period of loyal service permission to acquire 10 per cent cumulative preference shares at par, which may be converted into ordinary after further service or at retirement.

Land Hunger

There is something of the fundamentals of life in the review by Mr G. R. P. Llewellyn as chairman of The Java Produce Co Ltd. Mr Llewellyn, referring to the charging of some £6,000 to revenue for replanting and upkeep of immature areas, says that the main expenditure has been on replanting on Sumber Tenggulum Estate.'We have been compelled to incur it,' he says, 'in area that was cut out during the Japanese occupation. It was a case of showing use of the land or letting someone else have its use.'

In most populated districts in Java, Mr Llewellyn pointed out, the native inhabitants are land-hungry – not to say 'greedy'. If there is uncultivated ground, 'squatters' will establish small-holdings, regardless of ownership, from which it is exceedingly difficult, if not impossible, to eject them. The Government, he said, is neither strong enough, nor over-inclined to do so. The board are carrying out these extensions 'with no small reluctance' and are restricting them to 'the bare minimum that will suffice to maintain ownership'.

Wool Prices

The accounts of the West Riding Worsted and Woollen Mills Ltd and the accompanying chairman's statement show the effects of the sharp fluctuations in the price of wool. From 235*d* per lb. at the beginning of the year, 64's B tops rose to 348*d* on March 31st and fell to 152*d* by the end of the year.

Turnover in money value rose considerably but profits fell from £1,827,828 to £805,111 through the writing down of stocks and providing for contingencies resulting from the price decline.

And, Mr J. H. Keeling, the chairman, explains, 'as this was done out of the earnings for the year, the substantial specific reserves created in previous years to provide against these very eventualities have been left intact'. One of these reserves is for £500,000 'against effect of possible future fall in value of stocks and for contingencies'.

The expansion was largely financed by bank credit, the amount due to bankers at balance sheet date being £2,791,621 against £160,882 at the opening. Mr Keeling concludes on this point: 'I am glad, however, to say that these figures are now mainly of historical interest. For example, the group's net indebtedness to its bankers at December 31st was only £45,540.'

Money Market

Treasury bill applications totalled £264,200,000 on February 15th, and the market obtained 59 per cent of requirements with the average rate at 19*s* 6·76*d* per cent. This week's offer is £200 million.

BIRFIELD INDUSTRIES LIMITED AND ITS SUBSIDIARIES

Consolidated Profit and Loss Account for the year ended August 31st, 1951

Dr.

1950 £		£	£
228,364	Provision for Depreciation of Fixed Assets		285,428
11,856	Administration Expenses of the Holding Company		7,601
2,475	Auditors' Remuneration		3,338
	Taxation on the Profits of the year:		
118,000	Profits Tax	186,225	
346,291	Income Tax	580,148	
464,291			766,373
429,948	Net Profit of the Group for the year carried down		552,849
£1,136,934			£1,615,589
2,689	Goodwill, Formation Expenses, etc., written off		1,600
	Transfers to:		
—	General Reserve		175,000
140,000	Reserve for Increased Replacement Cost of Fixed Assets		15,000
70,000	*Stock and Contingencies Reserve*		—
35,000	Provision for Pension Fund		57,500
—	Amount Capitalized by a Subsidiary Company		5,000
—	Proportion of Dividend payable by a Subsidiary Company, attributable to Outside Shareholders		3,528
	Unappropriated Profit carried forward by Subsidiary Companies:		
403,243	Attributable to Birfield Industries Ltd	578,731	
Less 147	Attributable to Outside Shareholders	1,757	
403,096			580,488
199,958	Balance dealt with in the Appropriation Account of the Holding Company		151,037
£850,743			£989,153

Cr.

1950 £		£	£
1,133,965	Trading Profits of Subsidiary Companies before charging Depreciation etc.		1,613,885
	Other Income:		
2,262	Interest on Tax Reserve Certificates		1,195
462	Dividends from Trade Investments		423
245	Interest Received		86
	Emoluments of the Directors of Birfield Industries Ltd paid by the Company and its Subsidiary Companies amount to £21,100, consisting of:		
	Fees – Year ended August 31st, 1951 £4,000		
	Salaries of Executive Directors 17,100		
£1,136,934			£1,615,589
429,948	Net Profit of the Group for the year brought down		552,849
	Provisions made in previous years no longer required:		
136,960	Taxation		15,000
9,594	*Anticipated Loss in respect of materials on order etc.*		—
—	Deferred Repairs		14,923
—	Other Items		338
19,709	Surplus arising on sale of Plant and Buildings		2,947
	Unappropriated Profit brought forward by Subsidiary Companies from last year:		
254,515	Attributable to Birfield Industries Ltd	403,243	
17	*Less* Share of Losses attributable to Outside Shareholders	147	
			403,096
£850,743			£989,153

BIRFIELD INDUSTRIES LIMITED

Appropriation Account

1950 £		£	£
25,410	Dividend on Preference Stock paid, *less* Income Tax, for the year ended August 31st, 1951		22,666
29,000	Transfer to Capital Redemption Reserve Fund		83,055
1,450	Premium on Redemption of Preference Stock		14,153
	Balance of Profits available:		
29,150	Proposed Dividend on Ordinary Stock of 20 per cent, *less* Income Tax, for the year ended August 31st, 1951	27,825	
90,000	Proposed Allocation to General Reserve	25,000	
129,572	Carried forward as per Balance Sheet	107,910	
248,722			160,735
£304,582			£280,609

1950 £		£
	Balance per Consolidated Profit and Loss Account:	
121,997	Net Profit for the year	151,037
77,961	*Provision for Taxation no longer required*	—
104,624	Balance brought forward from last year	129,572
£304,582		£280,609

BIRFIELD INDUSTRIES LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheet, August 31st, 1951

1950 £		£ Authorized	£ Issued	£
	Capital			
770,000	£486,945 6 per cent Redeemable Cumulative Preference Stock	486,945	486,945	
265,000	£265,000 Ordinary Stock	265,000	265,000	
	468,055 Unclassified Shares of £1 each	468,055	—	
1,035,000		£1,220,000		751,945
	Capital Reserves			
185,000	Capital Redemption Reserve Fund		468,055	
	E.P.T. Post-war Refund – as at August 31st, 1950 ..	223,047		
223,047	*Less* Amount Capitalized	62,000	161,047	
408,047				629,102
—	**Nominal Value of Shares in Subsidiary Companies in excess of Cost**			70,000
	Revenue Reserves and Surplus			
	General Reserve:			
110,000	As at August 31st, 1950	200,000		
—	*Less* Amount Capitalized	200,000		
—		—		
90,000	Proposed Allocation	200,000	200,000	
285,000	Reserve for Increased Replacement Cost of Fixed Assets		300,000	
300,000	Stock and Contingencies Reserve		300,000	
	Profit and Loss Appropriation Account:			
	Balances:			
129,572	Holding Company	107,910		
403,243	Subsidiary Companies	578,731	686,641	
1,317,815				1,486,641
428,400	**Provision for Income Tax, 1952–53**			660,100
3,189,262				3,597,788
	Outside Shareholders' Interests			
19,453	Proportion of Net Assets attributable thereto ..			28,805
	Provisions			
24,736	Deferred Repairs		1,970	
60,314	Pension Fund		116,369	118,339
85,050				
	Current Liabilities			
418,672	Trade Creditors and Accrued Expenses		599,120	
526,963	Taxation (including Income Tax to April 5th, 1952) ..		560,200	
29,150	Proposed Ordinary Dividend		27,825	
974,785				1,187,145
£4,268,550				£4,932,077

1950 £		£ Cost or Net Book Value	£ Provision for Depreciation	£ Net
	Fixed Assets			
	At Cost or Net Book Value at July 1st, 1948, *less* Depreciation:			
	Freehold Land and Buildings	883,274	198,806	684,468
626,715		803,540	176,825	
	Leasehold Land and Buildings..	8,195	877	7,318
6,233		6,770	537	
	Plant, Machinery, Office and Works Furniture and Fittings and Motor Vehicles	1,821,641	913,870	907,771
715,644		1,381,858	666,214	
		£2,713,110	1,113,553	1,599,557
1,348,592		£2,192,168	843,576	
	At Valuation (Cost of Consumption charged to Revenue):			
196,141	Loose Plant and Tools			293,001
1,544,733				1,892,558
5,600	**Goodwill and Formation Expenses at Cost** ..		5,600	
—	*Less* Amount written off		1,600	
				4,000
	Investments			
	At Cost, *less* amounts written off:			
2,117	Trade Investments		2,117	
174	Unquoted Investments		174	
2,291				2,291
	Current Assets:			
1,121,863	Stocks on hand		1,773,648	
941,091	Sundry Debtors, *less* provision for Bad Debts ..		1,178,634	
240,000	Tax Reserve Certificates		50,000	
412,972	Cash at Bank and in hand		30,946	
2,715,926				3,033,228
£4,268,550				£4,932,077

Notes:

(1) The E.P.T. Post-war Refund Capital Reserve is subject to adjustment on final settlement of the Excess Profits Tax liability.

(2) Contracts for Capital Expenditure, not provided for, amount to approximately £689,000.

(3) Assets and Liabilities in Australian pounds have been converted at the rate of A£125 to £100.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Assessments upon Executors of a Deceased Taxpayer

SIR, – As you will know, Section 29 (3) of the Finance Act, 1923, provides that the Inland Revenue can only raise assessments upon executors of a deceased taxpayer within three years after April 5th following the date of death. A client of mine died intestate in the latter part of 1947, so that April 5th, 1951, was the latest date for any assessments to be raised.

This particular matter developed into a substantial back-duty case, but considerable delays occurred on the Inland Revenue side with the result that no assessments had been issued by March 1951. I was then called to an interview with the Inspector of Taxes, when I was informed that, to keep the matter in order, he had previously given instructions for large estimated assessments to be raised for 1944–45 onwards. Discussions then ensued, which more or less settled the actual liabilities involved – some £4,500 in all.

The usual assessment notices under Schedule D duly arrived, but not until April 8th. They were all dated (with a rubber stamp) 'April 7th, 1951', from which it appears that they were all out of date. Notice of appeal was given, stating no specific grounds.

The moral aspect of this case is interesting, as also is the question of etiquette as concerns the accountants, the solicitors for the estate, the widow and the Inland Revenue. I would very much like to know your readers' views on these subjects, and also on the following points, which seem to me to be important.

Is it quite clear that the assessments are out of date, and can be avoided on that ground alone? If not, in what way might the Inland Revenue seek to substantiate the position (and under what authorities)? Does Section 216 of the Income Tax Act, 1918, apply in any way? – personally I think not.

Yours faithfully,
F.C.A.

Balance Sheets in the Future

SIR, – Mr J. Perkel's concluding paragraph in his letter in *The Accountant* of February 2nd on Mr Angus MacBeath's article (*The Accountant*, December 1st, 1951), brings to mind another aspect of long-term liabilities.

Mr MacBeath said:

> 'Though the intrinsic value of the currency may fluctuate constantly the quantity of the currency which has to be paid to settle the long-dated liabilities remains constant so that no change in the present treatment seems likely.'

Mr Perkel says:

> 'Long-term liabilities should be actuarily ascertained as at the date of the balance sheet.'

At the point of repayment of a loan borrowed in 1946 £s, with (I suggest purposely) 1951 £s, the company has won as 'bunce' the difference in monetary values. If alterations in the values of the fixed assets are to appear in the accounts, should not this item also? So far as such long-term loans were used to purchase fixed assets, at the 1946 £'s value, which have been revalued in the balance sheet, there would seem to be a logical argument for reducing both the revaluation reserve, and revised asset value, by the amount of such 'bunce', and it also follows that depreciation calculated on these figures would be affected.

Financial prudence has no doubt been the guiding star in suggestions for dealing with an inflationary currency, but with the possibility that expanding oversea competition and ultimate dropping off of rearmament will see the world facing a deflationary period, is the time not becoming ripe to re-examine some of the accounting arguments in the light of a deflationary currency?

Some arguments which appear to satisfy the requirements of a fluctuating currency when applied in inflationary conditions, look a bit sick when inverted to cope with deflationary conditions. For instance – an especially provocative point – it may be possible to obtain an inclusion in costs of depreciation based on replacement values during an inflationary period, but who is going to face a directorate with an argument for bringing in a corresponding *credit* against costs when those replacement costs wilt as deflation sets in?

Is it possible now to entice some thought on the reverse position to that to which we have grown accustomed during war and post-war years?

Yours faithfully,
Birmingham, 26. K. BLUNDELL.

Capital Reserves, Revenue Reserves or Provisions?

SIR, – The words which fell from Lord Latham during his speech at the recent dinner of the Association of Certified and Corporate Accountants expressed further authoritative opinion in the controversy as to the necessity for revision in traditional accountancy methods so as to meet the effect of the change in monetary values. The reference in your issue of February 9th to the remarks of Lord Latham impels me to write to you.

The conception of the profession as to the connotation of capital and of revenue expenditure is well established; but it is apparent that there is marked

diversity of view as to what constitutes a capital reserve as compared with a revenue reserve. As the differentiation is at the root of accountancy, is it not a matter of immediate importance that there should be consensus of opinion as to the boundary between these two classes of reserve and provisions?

Since the introduction of the Companies Act, 1948, I have examined a large number of balance sheets with the particular object of noting the method of presentation of the fact that profit money has been retained towards meeting the increased cost of replacement of fixed assets. In particular, I have before me the balance sheets of two industrial 'giants' in the joint-stock company world: in one of these a figure of several millions appears under the caption of 'capital reserves' while in the other, under 'revenue reserves and undistributed profit', appears the sub-description 'reserve for increased replacement cost of fixed assets'.

In the many balance sheets I have examined, the retention is indicated either under capital reserve or revenue reserve: the difference in treatment may be a source of annoyanee to editors of the financial Press, stockbrokers, statisticians, and others whose activities involve the review of balance sheets.

In spite of the indicated difference in treatment, my submission is that neither method is correct and that sums of this character are, under the Companies Act, 1948, properly to be included as provisions.

To proceed in logical sequence, it is necessary to consider what was the conception of the capital reserve prior to the inception of the present Companies Act. I think it will be accepted that a reserve was regarded as being capital in quality as a result of the source from which it arose – actual profit resulting from the sale of a fixed asset or the book profit resulting from taking to account the excess of a valuation over the original cost of the asset. The intended destination of the moneys representing the reserve was not the test as to its quality.

Those companies who today adopt the heading 'capital reserve' would, I suppose, seek to justify the treatment on the footing that it was the ***intention*** to spend the representative money on fixed asset replacement: so that to this school of thought a capital reserve is such either because the representative moneys flow from a particular source or irrespective of their source their intended destination is the meeting of the cost of replacement. This proposition clearly involves a material change in the original conception; but there is authoritative opinion to support this change and reference to this opinion must be made.

The opinions of counsel obtained by The Institute of Chartered Accountants in England and Wales are stated at page 47 of that excellent booklet on the Companies Act issued by the Institute in May 1948.[1] An extract of the opinion is:

> 'An amount retained by way of providing for renewals is a provision . . . any amount set aside (e.g. for the purpose of providing finance for the replacement of assets at an enhanced price level) *without* the intention of charging the cost of replacement against the amount set aside would be a reserve and not a provision.'

Thus there is legal opinion to support the use of the caption 'reserve'. In a following issue of an addition to its series of recommendations – which have been of considerable value to the profession – the Institute advised that a reserve to meet the enhanced cost of replacement should be described as a capital reserve.

With the utmost respect to counsel I have overwhelming difficulty in appreciating the *ratio decidendi* of his opinion and the burden therefore attaches to me of attempting to substantiate my dissent.

If considerations which arise in those concerns which adopt the double account system be ignored, I do not think there is any member of the profession who will challenge me in saying – as I do most affirmatively – that in commercial or industrial accounts extremely rarely, if ever, is the cost of replacement charged against the reserve set up to meet such cost and that it is the cost of the asset replaced, and not the cost of the replacing asset, which is so charged. If the opinion of counsel be followed it will mean that a sum set aside to meet even depreciation based on historical cost is wrongly labelled as a provision because it is not intended to charge the replacement cost but rather the cost of the replaced asset against the retention. Indeed it is difficult to imagine a case, if the opinion be followed, in which a sum retained for the replacement of assets would be a provision: yet in the early words of his opinion counsel states that an amount retained by way of providing for renewals is a provision: he goes on to depart from this view if there be no intention to charge the cost of replacement against the amount set aside.

It certainly seems that counsel was under the misapprehension that it is the commercial practice to charge the replacement cost against the sum retained to meet replacement rather than to the asset account.

It seems that the Institute felt that the word 'capital' should be prefixed on the footing that it was not intended to distribute such moneys and that, as the statutory definition of capital reserve requires the exclusion from this caption of sums regarded as free for distribution through the profit and loss account, this stated exclusion was sufficiently apt to justify the inclusion of sums *not* regarded as free for distribution through the profit and loss account. If this were the footing on which the Institute reached its view, a *non sequitur* appears to subsist.

To say that apples must not be included in a particular basket does not imply an authority for th placing of pears therein; and it will certainly be wrong to include pears if there be some external legal requirement that they be placed elsewhere. Applying this to the present consideration and substituting sums retained for the replacement of fixed assets for

[1] *The Accountant*, May 29th, 1948. Leading article at p. 417.

the pears, I contend that it is wrong to include these sums under capital reserves because there is an external requirement that they must be placed elsewhere – that place will be next considered.

In the Interpretation (Part IV) of the Eighth Schedule to the Companies Act, 1948, the following is contained:

> 'Provision shall . . . mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets.'

A careful consideration of this definition is of direct relevance and substantially interesting. One is constrained to ask the significance of the words 'written off *or* retained'. To the lawyer it is well known that in attempting to construe a statute one must be slow to regard any word as being otiose and accountants in the course of their duties which involve reference to statutes are familar with this point: therefore 'or' must be taken as having a meaning and intending to signify that there may be a difference between an amount written off and an amount retained.

If a loss be revealed before taking to account any amounts necessary for depreciation, renewals or diminution in the value of assets, it is quite impossible to *retain* out of a loss a sum of money for any of these purposes; but it is both possible and desirable, even if legally unnecessary, to take to account these matters and, as we all know, that is done merely by book entry: on any view there cannot be a physical retention because there is nothing out of which to retain.

If a profit appears before considering this question, a sum of money is retained physically because there is distributable money out of which to retain it; the book treatment is not relevant to the consideration. The point may be summarized as follows:

(1) There may be a physical retention without the amount being written off against the asset.

(2) With all amounts written off against assets there must result a physical retention unless the amount written off adds to a pre-ascertained loss.

Assume that a company is on the eve of replacing an asset which originally cost £10,000 and that the asset has been fully depreciated on historical cost: further, that the directors have rightly estimated that the cost of the replacing asset would be £30,000 and that the further £20,000 required over the historical depreciation has been retained on a yearly basis out of the profits earned in each year during which the asset has been employed. Can it be argued that the total sum of £30,000 was other than a retention out of profit? The £10,000 written off falls within the statutory definition – because it is both written off and retained – and the £20,000 similarly falls because it is a sum retained although not written off.

I hope I have logically reasoned to my dominant conclusion that a sum retained over and above historical depreciation is a provision no less than the historical depreciation. I have been at pains to support my original contention that the inclusion of these sums either under capital or revenue reserve is a contravention of the Act. To revert to my apple and pear example previously indicated, the Act requires that apples (sums regarded as free for distribution) must not be included in the basket of capital reserve but that does not authorize pears (sums retained over and above historical depreciation) being included in the capital reserve basket because the statutory definition of provisions requires the inclusion of such sums under that heading.

I am firmly of the opinion that the total of the undistributed profit of a company should be readily ascertainable from an examination of its balance sheet. Very different circumstances prevail in the case of a corporate entity as compared with that of a sole trader or partnership; in the case of a company, if the word 'capital' were used accurately, it could connote only the issued share capital, share premiums and the capital redemption reserve fund required to be set up by the Companies Act in cases where redeemable preference shares have been repaid out of profit money. All other funds of the company must represent either borrowed money or undistributed profit, and the fact that a certain part of the profit has been retained to meet the enhanced cost of replacement of fixed assets surely cannot affect the quality of the moneys so retained – they remain profit notwithstanding and they will so remain until they are passed to the shareholders either in the form of cash dividend or in that of a bonus share capitalization.

If the capital reserve method be adopted, the undistributed profit of the company is not apparent from a reading of the balance sheet: notwithstanding the fact that the directors do not intend to distribute the moneys, they remain, and indeed must remain, profit moneys.

If there were no law which governed the subject, and it became the universal practice to include sums which it was not intended to distribute under the heading of 'capital reserve', consistency in treatment would require *a fortiori*, that sums *actually* invested in the purchase of additional assets not by way of replacement would have to be shown under capital reserves: in other words, at the end of each accounting period it would be necessary to ascertain the amount of profit which had been expended in the acquisition of assets, other than those replacing, and to transfer the resultant sum to capital reserve. Put another way, if the intention to expend moneys in this direction is sufficient to justify their inclusion under capital reserves, then surely the fact of actual expenditure as against intention should equally require it.

It is a simple matter to express my reason for contending that the adoption of the heading 'revenue reserve' is equally faulty. The Interpretation (Part IV) of the Eighth Schedule reads:

> 'the expression "reserve" shall not . . . include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets.'

These words clearly prohibit such adoption and the

inevitable question is: Why therefore is it to be found in practice?

I have made my submission on this point with the greatest respect to all authority on the question, but we have reached the status of a learned profession and a large degree of the contribution to advanced schools of thought must be in the form of wide criticism.

Since the introduction of the Act, I have been privileged to address many of the district societies in this country and in submitting my views on the present consideration to the members before me I have received a wide measure of support. I close with the hope that the question may generally be felt worthy of further examination.

Yours faithfully,

FREDERICK A. ROBERTS, A.S.A.A.

Tolworth, Surrey.

THE ASSOCIATION OF SCOTTISH CHARTERED ACCOUNTANTS IN LONDON

ANNUAL REPORT BY THE COMMITTEE

For the Fifteen months ended December 31st, 1951

The annual general meeting of The Association of Scottish Chartered Accountants in London will be held at The Institute of Chartered Accountants in England and Wales, Moorgate Place, EC2, on Wednesday, February 27th, 1952, at 5.30 p.m. for the purposes of receiving the annual report of the Committee, electing two members to the Committee and considering and, if thought fit, approving the Resolutions set out below.

Resolutions to be considered at the Annual General Meeting

(1) THAT every member of the Institute of Chartered Accountants of Scotland for the time being residing, practising or employed in England and Wales, be deemed to have been admitted a member of the Association free of any payment by way of entrance fee or annual subscription.

(2) THAT, until otherwise decided in general meeting, the objects of the Association shall be:
  (*a*) to collaborate with the Institute of Chartered Accountants of Scotland and in particular with the London Local Committee of that Institute in all matters falling within the purview of the London Local Committee; and
  (*b*) to carry on such other complementary activities as may appear to be desirable not being activities which are for the time being undertaken by the London Local Committee.

(3) THAT the Committee be authorized, after payment of a grant of £75 to the Golf Club, and after settlement of all known liabilities, to lend the funds of the Association free of interest to the Institute of Chartered Accountants of Scotland and to place the office furniture and equipment at the disposal of the London Local Committee of the Institute of Chartered Accountants of Scotland.

(4) THAT the Committee be instructed to take all necessary steps to amend the existing rules and regulations of the Association in order to give effect to the foregoing.

We give below excerpts from the report:

Future of the Association

As a result of the amalgamation of the 'parent bodies' your Committee has had to consider to what extent a useful purpose remains to be fulfilled by the Association. Rule 50 of the rules of The Institute of Chartered Accountants of Scotland laid down that the Council was to set up local committees in Edinburgh, Glasgow, Aberdeen and Dundee, and elsewhere as might be deemed necessary by the Council. The omission of a specific reference to London was deliberate as it was thought possible by the Drafting Sub-Committee that the work to be done in other areas by local committees might be organized in England and Wales through the existing London Association.

There are two main objections to entrusting the local work in England and Wales to the Association rather than to a local committee of the Institute. The first is that a majority of the Scottish Chartered Accountants resident in England and Wales are not members of the Association. The second is that, while the Council has power to finance local expenditure by means of grants to local committees, there is no specific power in the rules to provide grants to a body not under the direct control of the Council.

With these points in mind the Council of the Institute, having already appointed local committees in Edinburgh, Glasgow, Aberdeen and Dundee, reached the view that it was desirable also to appoint a local committee for England and Wales and after communication with your Committee, who saw no reason to dissent from that view, a London Local Committee was appointed by the Council at a meeting of that body, held in October 1951. The Committee consists of all the present members of the Committee of the London Association together with Mr C. D. Gairdner and Mr E. Birnie Reid who come in under Rule 50 as members of the Council resident or practising within the area of the Local Committee.

Functions of London Local Committee

No general rules have as yet been laid down by the Council of the Institute regarding the functions of the local committees but, so far as the London Local Committee is concerned, it will apparently be expected to deal with precisely those matters which have in recent years been attended to by the Committee of the London Association, i.e. the provision of library facilities, the organization of classes and tutorials, the keeping of an appointments register, the arrangements for social functions, and the maintenance of liaison with the headquarters of the Institute. It is therefore doubtful whether, apart from questions of sentiment, the continued existence of The Association of Scottish Chartered Accountants in London will serve any

useful purpose. On the other hand, the Association has been in existence for some fifty-five years and your Committee is reluctant to recommend that it should be wound up, at least until sufficient time has been afforded to enable it to be determined whether the Association can continue to provide further useful services to London Scottish accountants. Accordingly at the forthcoming meeting, members will be invited to consider and, if thought fit, approve certain resolutions which would have the effect of putting the Association to sleep rather than to death.

Under the existing rules of the Association, any alterations require not only a confirming meeting but the approval and sanction of the Joint Committee of Councils of the three 'parent bodies'. Whether or not such approval is now required, or can be conferred by the Council of The Institute of Chartered Accountants of Scotland, it is believed that a resolution on the lines proposed would meet with no objection on the part of the Council.

Finance

As subscriptions are paid for the calendar year and expire at December 31st, 1951, the accounts have been made up on this occasion for the fifteen months from October 1st, 1950, to December 31st, 1951. These are appended[1] and as will be seen the balance of the general fund is £274 (after providing for a grant to the Golf Club of £75).

The surplus for the period was £61 as compared with £112 in the preceding year.

Membership

At September 30th last the number of members was 566 as compared with 560 at September 30th, 1950. Thirty-two new members were admitted during the year; deaths and withdrawals numbered 26.

[1]Not reproduced. – Editor.

Office Bearers

Mr C. I. R. Hutton, having completed a period of nearly two years as Chairman, asked the Committee to release him from the chairmanship at December 31st, 1951. The Committee agreed to do so and under Rule 12 elected Mr T. Lister, M.A., to succeed him. Messrs D. C. Macdougall and R. Adams are due to retire from the Committee at this time under Rule 10. Your Committee wish to place on record their thanks to the retiring chairman and members of the Committee for their valuable services. No nominations having been received under Rule 11, Messrs Charles Reid, D.S.O., M.A., and J. G. Girdwood, C.B.E., will be recommended for election to the Committee at the annual general meeting.

Other Matters in the Report

The report gives details of the results of the examinations affecting Scottish Chartered Accountant apprentices sitting in London during the year.

Under the heading 'Social Activities' it is stated, *inter alia*, that the thirty-fourth annual dinner,[2] held last October, was attended by 248 members and guests and proved a very successful occasion.

Details of the Golf Club activities (already mentioned in our columns) are given; to eliminate the existing deficit and to provide a small working margin, the Committee of the Association recommends that a grant of £75 be paid forthwith to the Club – provision for this has been made in the accounts of both the Association and the Club.

Full details of facilities to members are also given.

The Hon. Secretary and Treasurer of the Association is Mr J. Wood, C.A., 34 Clements Lane, Lombard Street, London, EC4.

[2]Reported in *The Accountant*, dated October 13th, 1951, at page 345.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Results of Examinations held in December 1951

SUCCESSFUL CANDIDATES – Home Centres

FINAL EXAMINATION

First Place and S. Laurence Gill Prize
Stanworth, Kenneth Parker, Penkridge.

Leverhulme Prize
Birss, John Gordon Michie, Glasgow.

Donald L. Moran Prize
Jointly awarded to Jennings, Godfrey Oliveira, London, and Venning, Royston George, Irvine.

(in alphabetical order)

Adams, S. E., Birmingham.
Allinson, D. F., Coleshill.
Allison, J. H. E., Leeds.
Anderson, M. A., Slough.
Arcus, A. L., Harrow.
Ashworth, H. G., Bramhall.
Atkinson, J. C., Sheffield.

Bagge, E. J. V., London.
Bailey, D. T., London.
Bailey, F., Liverpool.
Bailey, H. N., Walsall.
Bale, R. A., Ebbw Vale.
Barden, A. E., Mitcham.
Barnes, F. A., Croydon.
Barnsley, T. E., Birmingham.
Barrett, J., Salford.
Bates, W. H., Luton.
Battle, T. W., Stockport.
Baxendale, H. R., Preston.
Baxter, L. S., Hampton.
Beck, J., Whiteabbey.
Beesley, R. S., Lincoln.
Benton, R. J., Sheffield.
Bentzen, P. S., Liverpool.
Berry, L., Stockport.
Bird, S. E., St Albans.
Birss, J. G. M., Glasgow.
Blair, E. M., London.
Bleasby, G. H., Hessle.
Bloomer, L. E., Wakefield.
Booton, J. S., Nottingham.
Bosley, C. F. R., Buxton.
Bowden, R. R., Northwich.
Bradbury, J. H., Farnworth.
Brandon, J., Westcliff-on-Sea.

Brewser, L., London.
Brooke, G., Stockport.
Brown, G. A., Birmingham.
Brown, P. L., Giffnock.
Buchanan, D. F., Larbert.
Bunker, J. W., Barkingside.
Burgess, A., Manchester.
Burrows, R. E., Caterham.
Bushell, W. H., Derby.
Butler, W. D., Birmingham.

Callaghan, J., Houghton-le-Spring.
Canham, J. R. B., Birmingham.
Cappie-Wood, T. N., Dundee.
Carmichael, A. S., Manchester.
Carr, R., Barnehurst.
Cave, C. G., Rushden.
Cave, S. R., Bournemouth.
Chapman, L., St Helens, Lancs.
Chappell, C. N., Bristol.
Cheeseman, K. S., Southall.
Clavey, D. J., Wembley.
Clegg, G., Accrington.
Clegg, W. B., Prestwich.
Clifford, A. R., Chippenham.
Clough, J. R., Bacup.
Cockrill, E. J., Birmingham.
Coe, C. E., Loughborough.
Coldwell, A., Newent.
Collins, N., Wolverhampton.
Cooper, G. T., Birmingham.
Cooper, J. E., Nottingham.
Cope, F. B., Lower Bebington.
Corrigan, G., Stretford.
Couchman, B., Greenford.
Coulson, J. W., Hull.
Cox, L., Egremont.
Crawford, A., London.
Crawley, A. E., Sidcup.
Croker, H. A., London.
Crome, E., Edinburgh.
Crowther, L., Dewsbury.
Cullen, G. I., Newcastle-upon-Tyne.
Cullen, J. A., Birmingham.
Cullumbine, S., Rotherham.
Cunliffe, J. H., Chorley.
Cunningham, D. A., Belfast.
Curtis, D., Gateshead.

Dalziel, A. M., Gourock.
Daniels, J. E., Swansea.
Davies, D. W., Pontypool.
Davis, R. B., London.
Deans, R., Birmingham.
Deighton, W., Nottingham.
Dick, H. A., Dundee.
Dickson, I. C., Uxbridge.
Doole, W. E., Bishop Auckland.
Doouss, M. J., Harrow.
Dow, D. N., Esher.
Doyle, G., London.
Drexler, R. L., Hornchurch.
Dunkley, J. F., Horsham.
Durance, J. A., Mansfield.
Duschinsky, E., Salford.
Dyson, P., Peterborough.

Eastall, S. S., London.
Eastwood, G. W., Leamington Spa.
Eaton, W. H., Spondon.
Ellis, S., Seaford.
Evans, R. G., Burton-on-Trent.

Fellingham, E. W., Brighton.
Felstead, R. R., Enfield.
Field, G. A., Birmingham.
Fisher, F., Coventry.
Foster, H. E., Middlesbrough.
Foster, J., Preston.
Foulds, E. L., Nelson.
Freestone, P., Dunstable.
Frost, T. H., Southall.
Furness, H. V., Keston.
Furniss, R. A., Teddington.
Fyfe, A. T. C., Birmingham.

Gamble, P., Hayes, Middlesex.
Garbett, F. S., London.
Garbutt, C., Romford.
Gardiner, D., Glasgow.
Gilderoy, A. W., Birmingham.
Gill, P. S., London.
Gilmore, R. J., Wirral.
Gledhill, D., Bradford.
Goater, H. J., Birmingham.
Gooch, G. A., London.
Goodman, F. L. F., Birmingham.
Gosson, A. C. M., Liverpool.
Green, G. N., Harrow.
Grimwood, F. P., London.
Grindrod, L., Derby.
Gwilliam, J. F., Manchester.

Hadley, C. R., Birmingham.
Hallmark, A., Prestwich.
Ham, F. C., Bristol.
Hamilton, R. B., Belfast.
Hanson, H., Leeds.
Harfield, D. R., Reading.
Harman, D. B., Coventry.
Hawes, A. O., Paris.
Hawes, J. E., Croydon.
Haynes, F. H., Bristol.
Head, A. G., Southall.
Henry, D. R., East Horsley.
Hepworth, F., Dewsbury.
Herring, F. T., Bexhill-on-Sea.
Herron, D., Surbiton.
Hewitt, H. M. W., Stafford.
Hickman, H. J., Rugby.
Hider, E. W., Bristol.
Hiles, D. W., Long Eaton.
Hill, J. E., Northallerton.
Hill, W. R., Leeds.
Hobell, F. H., Leicester.
Hodgson, A., Preston.
Hodson, K. G., Stoke-on-Trent.
Hollingsworth, L. A., London.
Holmes, F. S., Sheffield.
Holroyd, J., Oldham.
Hooper, N. A. C., Yeovil.
Howell, G. V., Bradford-on-Avon.
Hubbard, H. F., London.
Hughes, E., St Helens, Lancs.
Hughes, J. E., Bristol.
Hughes, S. E., Chingford.
Hulme, A., Northwich.
Hunt, H. G., Twickenham.
Hutchinson, J., Hexham.

Ingram, H. R., London.
Innes, D. McL., Chorley.

Jackson, D. S., London.
Jamblin, D. M., Wembley.
Jeffrey, H. C., London.
Jenkins, E. D., Cardiff.
Jennings, G. O., London.
Jewers, W. G., Liverpool.
Johnson, G. R., Potters Bar.
Jones, E. G., Manchester.
Jones, F. E. V., Coventry.
Jones, P. D., Hatfield.
Jones, R. L., Bristol.
Jones, S., Bolton.
Jones, T. H., Church Stretton.

Kelley, C. J., Waltham Cross.
Kinder, D., Hyde.
King, F. H., London.
Kinns, R. S., Great Yarmouth.
Kirby, D. S., Manchester.
Kirkman, J., Knutsford.
Knowles, J. E., Denton.

Lait, F., Cambridge.
Lambeth, E. A., London.
Lane, L. W. T., London.
Lane, N. H., Darlington.
Lazarus, J. E., London.
Leary, D. W., London.
Lester, T. C., Oldham.
Leverton, N., London.
Liddle, A. W. P., Stamford.
Ligertwood, A. L., Barrow-in-Furness.
Lines, R. L., Bournemouth.
Lomax, G. R., Bolton.
Lowe, P. N. M., Runcorn.
Lund, J. N., Liverpool.

McCallister, T., London.
McCann, J., Dundee.
McCombie, J. C., Liverpool.
McCullagh, P. J., Dublin.
McDevitt, L. A., Sligo.
McDonald, B., Artane.
McEwan, E. McP., Harrogate.
McIntyre, J., Kirkcaldy.
McKee, N., Belfast.
McMinn, S., Newton Le Willows.
McNee, J. P., Glasgow.
Markham, M. P., London.
Marshall, A. B., New Malden.
Mason, G. S., Walsall.
Matthams, E. W., Oxford.
Maycock, R. L. G., Harrow.
Mazey, D. H., Bargoed.
Measham, A. F., Birmingham.
Merrick J., Birmingham.
Mewis, W. H. J., Birmingham.
Miller, W., Woking.
Mitchell, H. H., Romford.
Morrison, A., Glasgow.
Morton, J., Birkenhead.
Muddiman, J. A., Birmingham.
Munday, D. C., London.
Munyard, R. G., London.

Neal, W. H., Truro.
Nelson, J J., Edgware.
Newman, J., Brighton.
Nial, L. A., London.
Nixon, A., Birmingham.
Nixon, D. E., Wokingham.
Nock, J., Manchester.
Norrie, T. A., Dundee.
Norris, T. R., Manchester.

Orr, R. J. M., Ebbw Vale.
Orrock, J. G., Glasgow.
Owen, D. G. A., Penmaenmawr.
Owen, E. T., Harrow.

Palmer, J. W., London.
Pattison, J. E., High Wycombe.
Peace, D. V., Sheffield.
Pearson, J., Bristol.
Peaston, G., Newcastle-upon-Tyne.
Pegg, K., Sunderland.
Perrin, R. H., Southall.
Perry, N. F., Bridgend.
Perryer, L. S., Denton.
Peterson, T. G. G., Manchester.
Pettigrew, R., Shotts, Lanarks.
Phillips, G. T., Woodford Green.
Pinson, W. J., Coventry.
Port, C. H. J., Torquay.
Porter, C. G. J., London.
Pratt, B. T., Birmingham.
Price, G., Birmingham.
Prior, A. B., Parkstone.
Pullin, R. A. E., Bristol.

Quine, R. L., London.

Ramsden, L., Farnworth.
Redhead, D. J., Hornchurch.
Reeb, F. P. T., Hastings.
Reynolds, D. E., London.
Richards, F. C., Cheam.
Richey, J. A. D., London.
Richmond, N. S., Glasgow.
Rispoli, J., Polmont.
Rivers, S. D., London.
Robertson, R. C., Glasgow.
Rodway, A. M., Newport, Mon.
Rogers, A. L., Richmond.
Rogers, P. H., Manchester.
Rourke, T., Manchester.
Rowe, D. N., Dublin.
Rowe, W. M., Motherwell.
Rowley, E. P., Stourport-on-Severn.
Rowley, R. J., London.
Rule, C. D., Beaumaris.

Rundle, T. A., Houghton-le-Spring.
Russell, D. W. J., London.

Saint, F. S. A., Rhondda.
Sayer, J., Leamington Spa.
Sayer, T. W., Barnard Castle.
Scott, S. W., London.
Sloan, A. W. M., Hamilton.
Smith, N., Weybridge.
Spencer, R. H., Sheffield.
Stanley, G. M., Redcar.
Stanley, W. W., West Kirby.
Stimpson, H., Sheffield.
Stobie, A., Darlington.
Styles, D., Hinckley.
Sykes, F., Huddersfield.
Synan, C. H., Cardiff.

Tate, J., West Hartlepool.
Taylor, J. P., Sheffield.
Tempest, K. P., London.
Thacker, T. A., Chesterfield.
Thomas, R. V., Birmingham.
Thompson, E., Leeds.
Thornton, N., Manchester.
Thornton, T. J., New Malden.
Tricker, E. S., Reading.
Turnbull, D., Dundee.
Turner, A., London.
Turner, F. E., Harrow.

Umpleby, T. H., Sheffield.

Vart, R., Blackpool.
Veitch, J. L. S., Edinburgh.
Venning, R. G., Irvine.

Wackerbarth, J. H., Leeds.
Wadsworth, H. N., Rotherham.
Wainwright, G., Elland.
Wallworth, J. L., Stockport.
Ward, E. A., Manchester.
Warham, G., Warrington.
Watt, D. F., Flixton.
Webb, J., London.
Weber, S. J., London.
Weir, W. N., Liverpool.
Wells, S. H., London.
West, A. J. V., Aylesford.
Whitehouse, J. F., Birmingham.
Whiteley, P. R., London.
Whitfield, A. F., London.
Wilkinson, W. G., Bristol.
Wimsett, E. G., Gravesend.
Winstanley, M. E., Wigan.
Winwood, A. E., Birmingham.
Wishart, R. W., Glasgow.
Witham, C. J., London.
Wolstenholme, F., Barrow-in-Furness.
Wood, G., Hebburn.
Wright, A. D., Glasgow.
Wright, G. A., Stafford.
Wright, J. E., Ruislip.
Wright, L., Whyteleafe.
Wynne, D., Exeter.

Yates-Cotterill, W. G., Southsea.
Yeatman-Reed, M. R. H. W., Oxford.

346 candidates passed ***776 candidates failed***

Summary of Results – Home Centres

	Intermediate				
	Part I	*Part II*	*Parts I & II*	*Final*	*Total*
Candidates Successful ..	235	337	72	346	990
Candidates Failed	444	329	115	776	1,664
Candidates Sat	679	666	187	1,122	2,654

At the next examinations, to be held on June 9th, 10th and 11th, the Institute's new syllabus comes into operation for the first time and will include a number of subjects of a managerial character.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship at the Council meeting held on February 6th, 1952, who completed their Fellowship before February, 19th, 1952.

Associates elected Fellows

Andrews, William Norman; 1929, A.C.A.; (Sunderland, Mountstephen & Co), Dundee House, 15 Eastcheap, London, EC3, and at Ashtead.
Asquith, Bernard; 1946, A.C.A.; (Wheawill & Sudworth), Martins Bank Chambers, Greek Street, Leeds, 1.
Bellis, Cyril Richardson; 1928, A.C.A.; (Crowther Brothers), Savings Bank Buildings, Hotel Street, Bolton.
Berley, Maurice; 1937, A.C.A.; (M. Berley & Co), 112 City Road, London, EC1.
Borton, Henry Stuart, T.D.; 1931, A.C.A.; 6 West Street, Market Place, Blandford, Dorset, and at Sturminster Newton.
Breckin, Rowland Rayner; 1922, A.C.A.; (*Glover & Co), 18 Priory Place, Doncaster.
Cantrell, Denys Henry; 1929, A.C.A.; (Ernest James & Co), 11–13 Dowgate Hill, London, EC4.
Chater, Sidney; 1946, A.C.A.; (Poppleton & Appleby), 35 Windsor Place, Cardiff
Clapton, John; 1922, A.C.A.; Mitre Chambers, 75 New Street, Salisbury, Wilts.
Coope, William Nicholson; 1934, A.C.A.; (Crowther Brothers), Savings Bank Buildings, Hotel Street, Bolton.
Critchley, John Edward; 1939, A.C.A.; (Critchley, Ward & Pigott), Boswell House, 1–5 Broad Street, Oxford, and at Bicester; also at Abingdon and Faringdon, (*Critchley & Co).

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Crowther, Lewis Wilson; 1934, A.C.A.; (Crowther Brothers), Savings Bank Buildings, Hotel Street, Bolton.
Doherty, William Raymond, T.D.; 1936, A.C.A.; (Carter & Co), Lancaster House, Newhall Street, Birmingham, 3.
Farr, William Leslie; 1932, A.C.A.; (Derbyshire & Co), Bentinck Buildings, Wheeler Gate, Nottingham, and at London.
Francis, Ronald, B.A.; 1923, A.C.A.; (Ford, Rhodes, Williams & Co), 4B Frederick's Place, Old Jewry, London, EC2; for other towns see Ford, Rhodes & Harris and Ford, Rhodes, Foulkes & Co.
Grimble, Rudolf, M.B.E.; 1937, A.C.A.; (Edward Moore & Sons), Thames House, Queen Street Place, London, EC4.
Harrison, James Malcolm, T.D., B.A.; 1938, A.C.A.; (Harmood Banner, Lewis & Mounsey), 24 North John Street, Liverpool, 2, and at Chester and London.
Harrison, Roger Limmer, M.A.; 1938, A.C.A.; (Farrow, Bersey, Gain, Vincent & Co), 53 New Broad Street, London, EC2, and at Southend-on-Sea.
Hartnell, Anthony Edgar Cox; 1946, A.C.A.; (Legg, London & Co), 79 Eccleston Square, Victoria, London, SW1.
Hayman, Charles Christopher; 1934, A.C.A.; (Moore, Stephens & Co), 30 Cornhill, London, EC3, and at Paris.
Henderson, Robert Douglas, B.A.; 1936, A.C.A.; (W. A. Henderson & Co), 9 Clement's Lane, London, EC4.
Jenkinson, Walter Raymond; 1946, A.C.A.; (W. G. Hawson, Wing & Co), Hartshead Chambers, Sheffield, 1.
Kemp, Charles Lindley; 1927, A.C.A.; (*Kemp & Beggs), 11 Rumford Street, Liverpool, 2.
Leppard, Anthony Herbert; 1934, A.C.A.; (*Kidsons, Taylor & Co), Sardinia House, 52 Lincoln's Inn Fields, Kingsway, London, WC2, and at Barmouth and Manchester.
London, Edward Daintry; 1938, A.C.A.; (Derbyshire & Co), Bentinck Buildings, Wheeler Gate, Nottingham, and at London.

Longbottom, John Bickerstaffe; 1939, A.C.A.; (Learoyd & Longbottom), 2 Princes Square, Harrogate.
Morris, John Voce; 1934, A.C.A.; (Hancock, Gilbert & Co), Talbot House, 9 Arundel Street, Strand, London, WC2.
Neatham, Fred; 1935, A.C.A.; (Edwin Bradshaw & Son), 3 Springfield Street, Warrington.
Norledge, Philip Burton; 1938, A.C.A.; (G. H. Attenborough & Co), 9–10 Fenchurch Street, London, EC3.
Norman, Edgar Robert; 1934, A.C.A.; (Ford, Rhodes, Williams & Co), 4B Frederick's Place, Old Jewry, London, EC2; for other towns see Ford, Rhodes & Harris and Ford, Rhodes, Foulkes & Co.
Ramsden, Clifford; 1925, A.C.A.; (Thoseby, Son & Co), District Bank Chambers, Market Street, Bradford.
Raper, Douglas Matthew Duder; 1935, A.C.A.; (Ford, Rhodes, Williams & Co), 4B Frederick's Place, Old Jewry, London, EC2; for other towns see Ford, Rhodes & Harris and Ford, Rhodes, Foulkes & Co.
Russell, Norman Herbert; 1940, A.C.A.; (C. Herbert Smith & Russell), Eden Place Chambers, 71 Edmund Street, Birmingham, 3.
Snow, Frank Thomas, M.B.E.; 1932, A.C.A.; (Edward Moore & Sons), Thames House, Queen Street Place, London, EC4.
Sprunt, Stanley Walter Charles; 1934, A.C.A.; (Edward Moore & Sons), Thames House, Queen Street Place, London, EC4.
Traylen, Henry Edgar, B.A.; 1935, A.C.A.; (Edward Moore & Sons), Thames House, Queen Street Place, London, EC4.
Warner, David; 1934, A.C.A.; (D. & J. Warner & Co), 80 Coleman Street, London, EC2.
Wyborn, Alan Irvine; 1943, A.C.A.; (Andw. W. Barr & Co), Abbott's Chambers, 202 Bishopsgate, London, EC2.

Not in England or Wales

Bridgwood, Brian; 1927, A.C.A.; (*Turquand, Youngs & Co), Hongkong Bank Chambers, (P.O. Box 384), Singapore, and at Penang, Kuala Lumpur, Ipoh, and Jesselton (North Borneo).
Greaves, John Frederick; 1946, A.C.A.; (*Cooper Brothers & Co), 14 Rue de la Chancellerie, Brussels, and at Antwerp, Paris and Rotterdam.
Pearson, Arnold Maurice; 1923, A.C.A.; (*Gattey & Bateman), Fullerton Building, Singapore.

The Secretary of The Institute of Chartered Accountants in England and Wales very much regrets that in the report of the meeting of the Council held on February 6th, 1952, sent to *The Accountant* and published in the issue of February 16th, the name of Mr Harry Leach, A.C.A., of Bolton, appeared in error under the heading 'Deaths of Members', instead of Mr William Henry Leach, A.C.A., of Arnside.

LIST OF MEMBERS, 1952

The 1952 year-book of the Institute – the 'Red Book' – has now appeared and follows precisely the style adopted in 1950. A full alphabetical list of members and their firms (revised up to November 23rd, 1951) is provided, together with a topographical list. The names of members of the Council and of the Committees are given, as are details of the Benevolent Association, the library and the district and students' societies.

The total membership of the Institute is given as 16,082 – an increase on the previous year of 819. The following summary shows detailed comparison:

	On Nov. 30th, 1950	On Nov. 23rd, 1951	Increase+ Decrease−
ENGLAND AND WALES			
Fellows in practice ..	3,212	3,346	+134
Fellows not in practice ..	362	388	+ 26
Associates in practice ..	2,856	2,887	+ 31
Associates not in practice	7,264	7,827	+563
	13,694	14,448	
NOT IN ENGLAND AND WALES			
Fellows in practice ..	124	131	+ 7
Fellows not in practice ..	41	53	+ 12
Associates in practice ..	261	233	− 28
Associates not in practice	1,143	1,217	+ 74
	1,569	1,634	
Total membership ..	15,263	16,082	+819

Personal

MESSRS LEIGH & BUTLER, of Argyle House, 29–31 Euston Road, London, NW1, announce that Mr JEFFREY M. WALKER, A.C.A., has been admitted into partnership as from February 1st, 1952. The practice will be carried on in the name of Messrs LEIGH, BUTLER & WALKER as from that date.

Professional Notes

Mr Brian A. C. Whitmee, A.C.A., has been elected a director of Philip Hill, Higginson & Co Ltd and Philip Hill & Partners Ltd.

Mr A. H. Cheney, A.C.A., secretary of Seager, Evans & Co Ltd, has been appointed a director of the company.

Mr N. D. Grundy, F.C.A., has been elected to the board of Gordon Hotels Ltd.

Assistant Official Receiver Appointed

The Board of Trade has appointed Mr Alec Henry Horler to be Assistant Official Receiver for the Bankruptcy District of the County Courts of Reading, Banbury, Newbury, Oxford and Windsor. This appointment takes effect from February 13th, 1952 and is additional to the appointment dated June 22nd, 1951.

Overseas Economic Surveys

A survey of economic and commercial conditions in Italy has been published by H.M. Stationery Office, price 5*s* (post free 5*s* 3*d*). This is another volume in the series of Overseas Economic Surveys issued by the Board of Trade.

Police Force Statistics

A return of police force statistics for the year 1950–51 has been compiled by the Institute of Municipal Treasurers and Accountants in conjunction, for the first time, with the Society of County Treasurers and relates to the police forces of counties, county boroughs and the Borough of Cambridge, but does not include the Metropolitan Police area.

The main basis is an analysis of net expenditure chargeable to rates and grants expressed as a cost per 1,000 population and the return shows Coventry to have the lowest net rate-borne expenditure of the county boroughs with £391 13*s* per 1,000 people, while Eastbourne with £858 9*s* per 1,000 had the highest expenditure. These figures should be tempered to some extent by the knowledge that the Coventry police strength during the year was 130 officers below the authorized establishment, while in Eastbourne the actual and authorized strengths differed by only eight officers.

In the counties section, Berkshire's rate-borne expenditure of £594 per 1,000 people was the highest, and that of Flint the lowest at £306 14*s*.

Firm's Awards to Employees

Many cash awards, varying from £1 to £25 were made during 1951 to employees of the Dunlop Rubber Co. Given under the company's education scheme for successes in a wide range of examinations, the prizes included awards of £20, £10 and £5, respectively, for passing the Final, Intermediate and Preliminary examinations of The Association of Certified and Corporate Accountants, and £15 and £10, respectively, for the Final and Intermediate examinations of the Institute of Cost and Works Accountants.

Annotated Tax Cases

Part five of Volume XXX of the *Annotated Tax Cases*, edited by Mr Roy Borneman, of Gray's Inn, Barrister-at-Law, is published today and contains reports, with notes on the judgments, of the following cases: In re *Lyons* (Ch.D.); *Bentleys, Stokes and Lowless v. Beeson* (Ch.D.); *Wildbore v. Luker* (Ch.D.); *Nash v. Tamplin & Sons Brewery Brighton Ltd* (H.L.); *Davies v. Webbs (Aberbeeg) Ltd* (H.L.); *Stainer's Executors (Gospel and Another) v. Purchase* (H.L.); *Lord Advocate v. Angus Trustees* (C.S.); *Moray Estates Development Company v. C.I.R.* (C.S.); *Craigenlow Quarries Ltd v. C.I.R.* (C.S.); In re *Rose* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30*s* post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

The Certified and Corporate Accountants' Year Book

The Association of Certified and Corporate Accountants has now published the 1951–52 edition of its year book, which includes a supplementary list of members corrected to November 30th, 1951. In addition to alphabetical and topographical lists of members, the copious information in the book includes details of the Council and Committees; details of the district societies and students' societies; regulations as to admission of Fellows and Associates, and the annual reports and accounts of the years 1949 and 1950. The total membership of the Association is given as 8,052 – an increase of 259 on the 1949–50 figure of 7,793.

Royal Commission on the Taxation of Profits and Income

The Minutes of Evidence for Thursday, November 22nd, 1951 (the sixth day of public hearings), are now on sale at H.M. Stationery Office, price 2*s* 6*d* (plus postage). Evidence on that day was given on behalf of the British Bankers' Association.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF FEBRUARY 24TH, 1877

Opening paragraph of an article entitled

The Recent Meeting of the Institute of Accountants

Reports of meetings are not always the most agreeable or interesting reading. The initiated know all the subjects of discussion by heart, and are possibly somewhat weary of them; the uninitiated regard the whole matter as something to be avoided, and never cease to wonder that any one can be found willing to sacrifice his time in such pursuits. Those who were present at the meeting are irritated at finding the best points omitted in the report of their observations, while the dull remarks of somebody else are given *in extenso*. Those who were unable to attend read the description of the proceedings with a contemptuous smile, and think what a difference it would have made if they had been there to deliver that speech which would have sent everybody home so much wiser than they came. But to the observant eye, reports of meetings sometimes have a deeper meaning than all this, and carry with them lessons that can be gleaned from no other quarter. We take the first opportunity that has presented itself to consider some of the noteworthy features that characterized the recent special general meeting of the Institute of Accountants; and to see what moral may therefrom be drawn.

The Accountant

ESTABLISHED 1874

MARCH 1ST, 1952 VOL. CXXVI NO. 4028

CONTENTS

CHANGING CONCEPTS OF BUSINESS INCOME

THE philosophical theory, first propounded by Heraclitus, that everything is in a continual state of flux and that nothing is stable has long been respected, if not wholly accepted. The decline in recent years in the value of money, if not so spectacular as to turn financiers into philosophers overnight, has at least been rapid enough to make many of them begin to doubt what until now they have always regarded as foremost among the eternal verities – financial statements based on approved accounting principles. Their argument is briefly that these principles, laid down in times when currency was constant and taxation inconsiderable, are no longer adequate to cope with the much aggravated conditions of the present day. In this criticism, they have been supported by economists who, measuring the results of co-ordinated human endeavour for different reasons, find that many modern accounting statements are based on principles which they do not accept and are not designed so as to provide the information required for their researches.

Several attempts have been made in recent years to reconcile these conflicting viewpoints, notably one by the committee appointed in 1945 by The Institute of Chartered Accountants in England and Wales and the National Institute of Economic and Social Research which published its report last year.[1] Now from America comes a long and provocative analysis of the same problems, produced by a study group composed of accountants, economists, lawyers and business men, set up three years ago on the initiative of the American Institute of Accountants and financed by it and the Rockefeller Foundation.[2]

The report is divided into nine sections. The first of these explains the objects of the group which were to define business income and to agree on how it should be measured. The second section is devoted to examining the general concepts of business income. Then, since concepts must be implemented by accounting, the next three sections, representing more than one-third of the report, are given up to a historical survey of the development of accounting principles and conventions down to date, followed by a discussion on the application of these principles in the light of the specific problems of the present day. Sections 6 and 7 state the economic and legal considerations involved in the concepts and measurement of business income and Section 8 summarizes the findings and gives the conclusions of the group. As these were not unanimous, Section 9 contains the epilogues of comment

[1] *Some Accounting Terms and Concepts.* Cambridge University Press. 3*s.*

[2] *Changing Concepts of Business Income.* The Macmillan Company, New York, $2.

and dissent expressed by individual members.

While the report is nobly planned and brilliantly executed throughout and should, of course, be read as a whole, it is the third and fourth sections, dealing with the measurement and recording of business income, to which accountants will, in particular, give the most serious thought. The group begins the third section by stating that 'business income' in this instance should be regarded as that of corporations (1) whose existence is deemed to be permanent, (2) whose business is to buy or produce and then sell goods or services, and (3) whose management is not clearly identified with ownership. It suggests that income accounting relies on a number of postulates which, while accepted as a working basis, must always be open to revision. The three most fundamental and generally accepted of these three prerequisites are the 'monetary postulate', 'the postulate of permanence' and the 'realization postulate'. The first of these is the longest established and assumes that fluctuations in the value of money, which is the accounting symbol, may be ignored. The second in seniority is the postulate of permanence which presupposes that the life of the enterprise will be indefinitely long. The realization postulate, which is of modern origin and more honoured in America than in this country, assumes that 'the entire income from sale arises at the moment when realization is deemed to take place', a result achieved mainly by the application of the LIFO method.

After a long and detailed survey of these fundamental assumptions, the group accepts the postulate of permanence because time has proved it to be 'completely valid over a wide and increasing area'. It also accepts, with certain reservations, the realization postulate on the grounds of 'relative certainty, objectivity and convenience' but rejects the monetary postulate in the form it is often presented – 'that accounting assumes the stability of the monetary unit' – as an obvious fiction.

Among the specific problems considered in Section 4 is the depreciation of fixed assets. The group considers that it is difficult to accept the LIFO method and still reject the current price level as the basis for calculating the appropriate charge, as the two have many common arguments in their favour. It should not, however, be necessary to write up the value of fixed assets, as was done recently by Imperial Chemical Industries Ltd, in order to justify the increased charge for depreciation against revenue because, from the standpoint of the concept of income, the propriety or otherwise of the increase should not depend on whether or not the directors had taken such action. At present, the normal accounting practice, both in this country and in America, is to provide for the anticipated increase in replacement costs out of available profits.

In summarizing its findings, the group states that in law and accounting it is generally agreed that business income is the excess of realized sales over costs. To arrive, therefore, at the true gain, the units of measurement for both sales and costs should be, as nearly as possible, identical. The present-day choice of units would appear to be monetary units of changing purchasing power and units of equal purchasing power such as that of the pound for the year for which the income is being ascertained. The latter unit is more accurate and useful but the former is easier to apply and is widely accepted. Where, however, due to inflation, the divergence between the two is appreciable, the group considers that a change in the manner of presenting accounts is called for. Ultimately, the framework of accounting should be expanded to show the trading results, both apparent and real, in one integrated statement. There would be difficulties attached to this procedure but none which modern accounting techniques could not overcome. For the present, although accounts should continue to be presented as before, large corporations should be encouraged to give additional information – as part of the material on which the auditor has to express his opinion – which would facilitate the determination of the profit being earned in terms of units of equal purchasing power.

The report was approved for publication by 36 members of the study group – 15 accountants (6 of them in practice), 11 economists, 3 lawyers and 7 business executives. To all who took part in the discussions, the thanks of the whole profession are due, for even if one does not agree with the conclusions reached (and it may be significant that three of the six practising accountants expressed dissent on certain sections), one cannot but recognize the report as a considerable intellectual achievement which may become a landmark in accounting literature.

BACK DUTY AND BANK ACCOUNTS

by SIDNEY I. SIMON, Barrister-at-Law

THE hunt is on. During the war, although the Board of Inland Revenue was at least as well aware as anyone else of the tax evasion that was going on, sheer shortage of trained inspectors prevented them from doing anything about it. Immediately after the war, the Board began to recruit a considerable number of men and women into the Tax Inspectorate. By the nature of things, some five or so years must elapse before the trainee becomes qualified, both by examination and experience, to tackle the many and difficult tasks of his inspectorial office. Not the least of these tasks is back duty, and with more trained inspectors available to undertake it, accountants can look for a steady flow of back duty cases in the years ahead.

Section 27, Finance Act, 1951

A clear indication that the Board means business lies in Section 27 of the Finance Act, 1951, which gives the Revenue power to obtain particulars of bank interest exceeding £15 credited to any person in any year. The procedure is for the Inspector to serve notice on the bank, or branch of the bank, requiring particulars of such interest credited during the year specified in the notice, including the names and addresses of the persons concerned.

There are two limitations: (i) the year specified in the notice must not be a year ending more than three years before the date of the service of the notice; (ii) the Inspector cannot under the section request particulars of interest paid or credited before April 6th, 1950, that is, the first year for which a return is to be made is 1950–51. As that year had already finished when the Budget was introduced in 1951, it follows that as regards those taxpayers who had not disclosed the interest in question, the damage was already done. It should be noted that the section applies to the joint stock banks and specifically to the Post Office Savings Bank.

Savings Banks

The Revenue has long had powers in relation to interest credited by savings banks. Section 39 (3) (*b*) of the Income Tax Act, 1918 (as amended by Section 24 of the Finance Act, 1924), provides that any savings bank whether or not certified under the Savings Bank Act, 1863, is exempt under Schedules C and D on the income of its funds so far as such income is applied in the payment or credit of interest to any depositor.

There is an important proviso: (i) any such interest is chargeable under Case III of Schedule D; (ii) in any year where a bank claims the exemption provided by the subsection, the bank must make a return to the Inspector of the name and address of each depositor to whom interest exceeding £15 is paid or credited out of its funds other than interest and dividends from investments with the National Debt Commissioners.

Thus the Inspector has been aware of interest exceeding £15 credited to a taxpayer's account in any trustee, municipal or other savings bank. In view of Section 27 of the Finance Act, 1951, it is now a matter of history whether in practice (whatever the theory) he was similarly possessed of such information about Post Office Savings Bank accounts.

Before the back duty inquiry closes, the taxpayer will almost certainly be asked to list his bank accounts and to sign a certificate that, for the period under review, they represent the only accounts in which he or his wife and probably his children have been beneficially interested either solely or jointly in any way whatsoever. A taxpayer who signs such a certificate without fully disclosing his accounts may be said to be heading for serious trouble.

Capital

While the hands of the Revenue have been immeasurably strengthened by Section 27 of the Finance Act, 1951, the department is still completely without power to obtain from the joint stock banks information other than that which the banks are obliged to give under the Act, viz. interest exceeding £15 per year. There is no obligation on the banks to make a return of interest below that figure nor to provide any details of current accounts. Indeed, a request to a bank manager from an inspector of taxes for information as to a current account, would, in the absence of authority from the customer to the manager, produce a blank refusal. The Inspector is too well aware of the limits of his powers even to try.

This is not to suggest that the taxpayer need not disclose such accounts, or to countenance evasion in any way. What is here emphasized is that the Revenue have limited powers to extract

information as to interest from the banks themselves and no powers to obtain information as to capital on current account. It by no means follows that they cannot obtain this information from the taxpayer himself and it is this aspect which will now be considered.

Precepts

The General or Special Commissioners on appeal may issue a precept to the appellant ordering him to deliver to them a schedule containing, *inter alia*, particulars of 'the property of the appellant' (Section 139 (1) (*a*), Income Tax Act, 1918). This would seem to include a balance sheet on which the business bank account or accounts should be a feature. Whether by precept the Commissioners could order production of the non-business bank accounts is arguable. If the appeal is by a company, the powers of the Commissioners certainly do not extend to ordering production of the private bank-books of the shareholders. So much is clear from the decision in *Haythornthwaite & Sons Ltd v. Kelly* ([1927] 11 T.C. 657; 6 A.T.C. 443). In that case Lord Hanworth, M.R., said:

> 'Now that precept was wrong. It purported to do more than it could, and it is not contended that there was an authority or power in the Commissioners to require the private bank-books of these individual shareholders in the company which was the subject of the assessment'.

The powers of the Appeal Commissioners are extended by Section 35 (2) of the Finance Act, 1942, which authorizes them to require the appellant to produce his *original* books, accounts or documents

> 'which in the opinion of the Commissioners issuing the precept contain or may contain information relating to the subject-matter of the appeal.'

But in any case the Commissioners have the widest discretion at an appeal (*Hunt & Co v. Joly* ([1928] 14 T.C. 165; 7 A.T.C. 245); *Wall v. Cooper* ([1929] 14 T.C. 552; 8 A.T.C. 236)).

Example

Consider, then, the position of a taxpayer whose affairs have been the subject of a back duty inquiry. It may be that he has been resolute in the protestation of his own innocence even to the extent of a refusal to give facilities to an accountant for a full investigation of his affairs. A request for such an investigation is normally one of the Inspector's opening gambits. The Inspector's request for inspection of the private bank-books (as opposed to the business bank-books) has similarly been refused. Reference by the inspector to the powers of the Board of Inland Revenue to obtain information by precept under Section 35 (1) of the Finance Act, 1942, even before appeal, has been met with the reply that Section 35 (1) refers to

> 'books, accounts and documents which contain information as to transactions of the trade, profession or vocation'.

According to the taxpayer his private bank-books contain no such information, and they do not relate in any way to his trade.

By estimated assessment the Inspector may force an appeal to the Commissioners. Unless the appellant can succeed on the grounds that there has been no 'discovery' by the Inspector within Section 125 of the Income Tax Act, 1918, the onus is squarely upon him to show that the assessment is excessive. If he fails to discharge that burden, the Commissioners must confirm the assessment. Whatever may be their powers under precept in relation to private bank-books, the Commissioners may quite properly indicate in an appropriate case that evidence which might satisfy them would be the appellant's private bank-books. *Hunt v. Joly* and *Wall v. Cooper*, above referred to, show the wide discretion vested in the Appeal Commissioners, a discretion with which the Courts will not normally interfere. So that finally the Inspector may succeed in examining the bank-books in question.

Conclusions

The position may be summarized thus:

Savings banks annually make returns of interest exceeding £15 paid or credited to depositors.

The Revenue may require the like information from other banks including the Post Office Savings Bank.

The Revenue have no powers to demand from a bank particulars of interest below £15, nor information as to capital on current accounts.

Both the Board and the Appeal Commissioners may require by precept production of business bank accounts.

It is arguable whether they may similarly require production of non-business bank accounts.

They may not require production of shareholders' bank accounts on an appeal by a company.

In appropriate cases when an objection to the absence of a 'discovery' by the Inspector has failed, the Appeal Commissioners' discretion might force the production of non-business bank accounts.

ARE THE FIGURES ANY USE?

by J. CLAYTON, A.C.A.

IN my early years at school, I acquired a liking – if no particular aptitude – for figures. You can imagine my glee, therefore, when I learned of the algebraic formula (which has, I suppose, given innocent amusement to many generations of schoolboys) whereby it is possible to prove, at least to the satisfaction of a junior schoolboy, that $2=1$, as follows:

Table 1 To 'PROVE' THAT $2=1$

Let	A	$= B$
Multiply by A	A^2	$= AB$
Deduct B^2	A^2-B^2	$= AB-B^2$
Factorize	$(A+B)(A-B)$	$= B(A-B)$
Divide by $(A-B)$	$A+B$	$= B$
As $A=B$	$2B$	$= B$
Therefore	2	$= 1$

Touchstone to the Mystery of Figures

At that time, it seemed to me that I had found the touchstone with which to unravel the immense mystery of figures. It was many years later – long after the glamour had faded from this childish trick – that I realized how salutary had been this youthful experience. It probably represented, however subconsciously, my first glimmering of understanding that figures were not facts in themselves; nor could they be substituted satisfactorily for facts. Figures may usefully be employed to inquire into, to analyse and summarize facts. Above all, I came to learn that figures express a relation – express the *quantum* of difference.

History records many eminent mathematicians such as Euclid, Newton and Napier. Pride of place would probably be accorded by most to Einstein, who has created mathematical formulae to express the most complex relations. My own personal choice, however, is Sir Hudibras, as a reminder of the danger of removing figures from their context:

'For he by logarithmic scale
Could take the size of pots of ale
And tell by sines and tangents straight
If bread or butter wanted weight
And wisely tell what time of the day
The clock doth strike – by algebra.'
—Butler: '*Hudibras*'

Limitations of Figures

It is, to my mind, essential that an accountant should realize the limitations of figures. Very few, if any, accounting statements are 'truly true' and usually include estimates and approximations. The important thing is to recognize and accept such degree of estimation and approximation as will permit the production of accounting statements with sufficient accuracy in the minimum time.

A lecture delivered to the Birmingham and District Society of Chartered Accountants on January 15th, 1952.

When I was a junior audit clerk in Lancashire I was engaged on the audit of a large cotton mill. To my horror I found that the hard-bitten directors 'took stock' by walking round the mill in the afternoon of New Year's Eve, thence retired to the board-room for a meal, immediately following which the chairman said: 'Now, Mr Secretary, we will have your accounts for the year.' I don't know whether that board ever learned that its secretary-accountant had closed his books about ten days earlier and added in respect of the balance of the year a mixture of factual data and estimates. The amazing thing was how closely he was able to anticipate such missing factual data as became available before the end of the audit. It is amusing to recall that that official is now auditor of some of my companies and when discussing estimates and approximations included in the accounts of those companies, is apt to make sly reference to my own youthful intolerance.

Capacity to Understand and Utilize Figures

Another personal experience was concerned not so much with the limitations of figures themselves but with human limitations. I took up one of my earlier commercial appointments filled with enthusiasm to illuminate every corner of the enterprise with figures. I shudder whenever I recollect the type of accounting statement which I then regarded as suitable for a board of directors. I never used less than double foolscap and often had several sheets pasted together. These vast expanses of paper I then covered with innumerable columns of figures so that hardly a square inch of pure white paper remained. The directors accorded my statements much more tolerance than was warranted and carefully pored over and discussed them at board meetings. To my dismay these discussions, instead of inducing clarity of understanding, appeared only 'to make the darkness opaque'. The trouble was that with so many columns to choose from, the chances were remote of any two directors referring simultaneously to the same column – and if they did, one was likely to read from about the middle of the column upwards, and the other from roughly the same point downwards.

Careful Selection of Figures

One of the most important functions of the industrial accountant is to make a careful selection of figures for each level of management. While it may be important to give a departmental manager the total result of his department, what he needs most of all are detailed figures of the expenditure and output over which he has direct control. If, as I hope, some form of standard costing and budgetary control is employed, the detailed variations from standard will be the important figures.

Per contra, a good deal of winnowing is needed

before useful figures can be presented to the board of a large company or group of companies. It is not perhaps sufficiently appreciated that bad accounting is too often the product of bad management. Unless the management is properly organized, it is impossible to rationalize the accountancy of an undertaking so that each level of management can be given the minimum of essential figures.

My own group of companies developed over many years an accounting system excellent in itself. The whole management was, however, highly centralized and it became apparent that, apart from other defects of over-centralization, insufficient use was being made by the management of the accounting data available.

Some years ago we reorganized our management on the basis generally of geographical decentralization, each local group of companies having its general manager and chief accountant. More effective use is now made of our accounting data, while the board of the parent company can carry out its functions with the aid of a brief summary of the accounts of the local companies at monthly intervals, together with an annual budget covering the whole of the group's activities.

Capital Allowances

One impediment to the rationalization of the internal accounts of a business so as to eliminate unnecessary paper work is the immense amount of detail required to satisfy the insatiable curiosity of the 'senior partner' – the Inspector of Taxes. Apart from the general question of bringing Inland Revenue concepts of income into line with commercial practice, as recommended by the Institute in its evidence before the Tucker Committee there is, I think, considerable merit in a suggestion made recently by Mr H. P. Finn[1] that undertakings should be allowed for taxation purposes to write-off the cost of their fixed assets at once. My own preference, however, would be for the allowance of the proportion of expenditure actually written-off in the accounts. This alone would save an immense amount of calculation of wear and tear allowances and residual values for tax purposes.

Future Income Tax

Apart from its accounting complications, the weight of taxation is so onerous and oppressive that its impact on accounts and profits is giving rise to considerable controversy.

Two years ago, I and two other members of the London and District Society of Chartered Accountants were asked to examine and report upon the accounts of thirty-one leading British companies having regard particularly to the effect on those accounts of the Companies Act, 1948. Only ten out of the thirty-one companies whose accounts were reviewed treated 'future income-tax' unreservedly as a revenue reserve, as recommended by the Council of the Institute. Having regard to the heavy incidence of tax, I suggest that accountants cannot be blamed for this conflict in treatment. The fault lies in the absurdity of the law and the tenacity of the Inland Revenue in upholding it.

[1] 'Some Reflections on Industrial Profits – II', by H. P. Finn, A.C.A., reproduced in *The Accountant*, December 15th, 1951, at page 571.

If the Companies Act were to ordain that half of last year's sales or next year's expenses were to be charged in this year's accounts, the absurdity would be apparent. But half of last year's profits is by law the taxation levied this year and the Inland Revenue argued before the Tucker Committee that it would upset its estimating if a more rational system were adopted. The Inland Revenue is too modest. It overlooks its own expertness in estimating with sufficient accuracy more than 80 per cent of revenue the Central Government derives largely from current activity and is unduly mindful of the possibility of error regarding the balance of less than 20 per cent from fluctuating profits.

Table 2

PROPORTION OF CENTRAL GOVERNMENT REVENUE DERIVED FROM INCOME TAX ON PROFITS, 1950[1]

	£m	
1. Total revenue of Central Government	3,918	(Table 20)
2. Income-tax on interest and profits	821	,, 27
3. Proportion of total	21 per cent	

Moreover, it might even be expected to assist in estimating to find, as is revealed by Cmd. 8203, that these fluctuating profits of persons and corporations have in fact represented during each of the five years so reviewed, a fairly uniform proportion of the aggregate income arising directly from the national production.

Table 3

TRADING PROFITS ETC. AS PROPORTION OF NATIONAL PRODUCTION[2]

	A	*B*	*C*
	£m	*£m*	*per cent*
1946 ..	8,360	2,325	27·8
1947 ..	9,228	2,685	29·1
1948 ..	10,058	2,881	28·6
1949 ..	10,439	2,863	27·4
1950 ..	11,122	3,124	28·1

The Royal Commission on Taxation provides another chance to resolve the dilemma of the treatment of 'future income-tax' by its elimination.

'Replacement Cost' Accounting

Another burning issue brought to the fore by the heavy weight of taxation is not so easy of solution.

[1] The figures are derived from the tables given in Cmd. 8203, National Income and Expenditure of the United Kingdom. H.M.S.O. 1s 9d. Included under (2), however, is tax under Schedules B and C, possibly accounting for about one-tenth thereof.

[2] The figures are derived from Table 33 of Cmd. 8203. 'A' is described therein as 'Total payments to factors of production', and includes wages, salaries and Forces' pay, employers' insurance contributions, profits of non-corporate public enterprises, net rent, and the items grouped in 'B' above. These items are described as 'Corporate trading profits and mixed incomes of persons', the latter including professional earnings, farm income and profits of other sole traders and partnerships.

I refer to the vexed question of 'replacement cost' accounting. For those of you who seek an objective review of this matter, I strongly commend Recommendation XII, 'Rising price levels in relation to accounts', in the series of recommendations issued from time to time by the Council of the Institute. For my part I shall attempt to refute a number of partisan attacks on the principles underlying that document.

Before doing so, however, in view of the virulence of the attacks, it might be useful to review as briefly as possible the substance of that document. In its preamble the Council adduced the significant facts, *inter alia*:

> 'In periods when rises in price levels are marked, businesses tend to become under-capitalized. . . .
>
> 'The basis and scale of taxation . . . are such that the extent to which profits can be retained in businesses for the purpose of adjusting the under-capitalization is seriously restricted. . . .
>
> 'The combined effect of the rise in price levels and the oppressive burden of taxation has led a number of business men and their advisers to question the validity of the method of profit ascertainment hitherto generally followed. . . .'

After discussing the problem at some length and drawing attention to the inconsistency of some of the attempted accounting solutions of it, the preamble added:

> 'There is no generally accepted conclusion . . . as to the way in which the problems should be solved. It is, however, clear that . . . the effects of the rise in prices when combined with the effects of the basis and scale of taxation cannot, unless profits are sufficient, be met by changes in accounting practice; Parliament alone has power to mitigate these consequences by changes in the tax law.'

The scrupulously objective preamble was followed by three clear and simple recommendations as follows:

'(1) Any amount set aside to finance replacements (whether of fixed or current assets) at enhanced costs should not be treated as a provision which must be made before profit for the year can be ascertained, but as a transfer to reserve. If such a transfer to reserve is shown in the profit and loss account as a deduction in arriving at the balance for the year, that balance should be described appropriately.

'(2) In order to emphasize that as a matter of prudence the amount set aside is, for the time being, regarded by the directors as not available for distribution, it should normally be treated as a specific capital reserve for increased cost of replacement of assets.

'(3) For balance sheet purposes fixed assets should not, in general, be written-up on the basis of estimated replacement costs, especially in the absence of a measure of stability in the price level.'

The Simple Standpoint of Principle

Leaving aside Recommendation XII, let us consider the matter from the simple standpoint of principle.

First, however, I must make it clear that my views on business are rather old-fashioned. Although in order to achieve its objective it is usual for a business to perform a useful social function, I believe that the primary object of a business is to make a profit. Lest you think this view unduly reactionary, let me adduce in support the words of the then Labour Chancellor of the Exchequer (Mr Gaitskell), who, in introducing his last Budget, said:

> 'There are some who disapprove of profits in principle. I do not share their view. In an economy three-quarters of which is run by private enterprise, it is foolish to ignore the function of profit as an incentive.'[1]

In normal conditions profit plays an important role in regulating supply and demand. When the supply of a commodity exceeds demand, prices fall and bankruptcy eliminates some of the surplus producers. Similarly, when demand outruns supply, suppliers make more than normal profits, which in turn causes a flow of new capital to the more profitable sectors of industry. This increases supply (and consequently competition between suppliers) and brings down excessive prices.

The primary cause of inflation lies, I believe, in a shortage of capital goods preventing the free flow of new capital into industry and therefore preventing free competition between suppliers which would curtail excessive prices.

Profit, in normal conditions, is a product of good management. One of the most serious effects of inflation is that bad management is not penalized. While prices are rising, the very time-lag inherent in trade and industry between purchase and manufacture on the one hand, and sale on the other, ensures profits even to bad management and higher than normal profits to good management.

> 'Of all the components of the national income, profits make the quickest response to inflation.'[2]

'Capital dressed-up to look like Profit'

It is asserted, however, that the abnormal profits arising from inflation are not profits at all, but 'capital dressed up to look like profit'.[2] 'True profit', it is argued, can only be struck after provision has been made for the replacement of plant and materials consumed.

Let me put the argument in the words of Mr Roland Bird, Deputy Editor of *The Economist*. Speaking in London recently, Mr Bird, after expressing disappointment with Recommendation XII, referred to:

> 'Paper profits which accrue as the price of stocks, working capital and inventories rise. According to Government statisticians that component in profit added £800 million to profit figures in 1950.'[3]

That may be true – but only in relation to the national income! If I were lucky enough to get delivery of the motor-car I have had on order for the last five and a half years, and at the end of the covenant period sold it at a profit of £500, the transaction would not add a single penny to the

[1] *Hansard*, April 10th, 1951, Col. 854.
[2] *The Economist*, July 28th, 1951, at page 230.
[3] The *Director*, December 1951, at page 63.

national income but it would undoubtedly result in a profit to me.

To our economist friends who are critical of our domestic accounting statements because they do not accord with a realistic conception of the national income, I would commend a careful study of the thoughtful paper given last year at the Institute's summer course at Oxford by Mr H. P. Finn, A.C.A., in which he pointed out that the purpose of a company's annual accounts is to

> 'present to the members a true and fair view of the company's affairs at the end of the financial year and of its profit and loss for that year'.[1]

and that

> '. . . figures of profit are determined for different purposes according to different conventions',

and this is true also of 'economic' as well as 'conventional' accounting. How else can one explain the totals of the numerous tables included in Cmd. 8203? For example:

		1950 £m
Table 2.	National income and depreciation	11,970
,, 3.	Disposable income and depreciation	13,572
,, 5.	Gross domestic product ..	11,896

There is no such thing as a 'true profit'; profit is always a convention and the accountant's art lies in his ability to arrive at the conventional conception of profit most suitable for the limited purpose of any given accounting statement:

> 'For what shall it profit a man, if he shall gain the whole world and lose his own soul?'[2]

Definition of Commercial Profit

It might be considered helpful, at this stage, if I enunciated my own conception of commercial profit. I put on one side of the account the whole of the proceeds (whether paid or accrued) and on the other side the whole of the expenditure (whether paid or accrued) from which I deduct the unexpired balance of any of the expenditure. The difference between the two sides is the resultant profit or loss.

You will appreciate, of course, that I am still naïve and innocent enough to continue to do my accounting in pounds sterling, converting if required – in a conventional manner – any proceeds or expenditure which arise in a different currency. I have not yet graduated sufficiently in the art of accounting to convert, for the purpose of domestic accounting documents, pounds sterling into pounds either of pre-war vintage or post-war velocity. In fact, I am deterred from attempting to do so from a study of the results of those who have essayed the attempt.

Two leading British companies, Courtaulds Ltd and Industrial Chemical Industries Ltd, have recently attempted to grapple with the financial problems associated with physical replacement of their fixed assets – but have apparently reached diametrically opposite conclusions! In the former case, the conclusion was that the sums written-off by way of depreciation were insufficient and must be augmented. In the latter case a revaluation of the fixed assets 'freed' the depreciation provisions which had previously been made from revenue and permitted their transfer to capital reserves.

A Useful Study

A useful study of this problem has also been made recently by the Federation of British Industries and the results published in a pamphlet entitled 'The effects of inflation on industrial capital resources'. Their main conclusion appears to be:

> 'It is clear therefore that the levels of prices and profits have not been excessive, but too low to sustain the burden of taxation under existing methods of computation and to maintain the productive capacity of industry.' (p.11)

My reading of the pamphlet, however, suggests that it permits of a somewhat different conclusion.

The pamphlet summarizes the consolidated balance sheets of eighty companies for the years 1938, 1945 and 1949. Table 8 is an extract of the figures given for 1938 and 1949, which may be summarized as follows:

Table 4

ASSETS OF EIGHTY COMPANIES AT HISTORICAL COST

	1938 £m	*1939* £m	*Inc.* £m
Net assets			
Fixed assets	134	205	71
Net current assets	157	414	257
Other assets	156	190	34
	£447	£809	£362

The pamphlet also provides estimates of revised valuations of assets in terms of current pounds in place of pounds sterling. On page 8 the information is given that:

> 'In terms of 1949 prices, current assets in 1938 were worth £378 million and fixed assets £315 million. . . . In 1949 . . . current assets were worth £414 million at 1949 prices and fixed assets £304 million on the lower valuation and £356 million on the higher.'

It will be evident that this new method of accounting is a bit rough and ready and I am sure no one will object if, for the purpose of aggregation, I take £330 million, i.e. a simple average of the two alternative figures given as the revalued figure for 1949 fixed assets.

Unfortunately, this modern accounting is still in its embryonic stage and as the pamphlet provides no information regarding the revaluation of 'other assets' in 'real' terms, I have been compelled to include them in the summary in 'conventional' terms. Then again, I have not deemed it necessary to make any adjustment in respect of the inconsistent treatment of 'land' which is included in 'fixed assets' in the

[1] Reproduced in *The Accountant*, December 8th and 15th, 1951.

[2] St Mark viii, 36.

'summary of balance sheets' at £7–£8 million, but is not apparently included in the revalued figures for 'fixed assets' quoted above.

Table 5

ASSETS OF EIGHTY COMPANIES REVALUED AT 1949 PRICES

	In terms of 1949 £s		
	1938	*1949*	*Inc.*
Net assets	*£m*	*£m*	*£m*
Fixed assets	315	330	15
Net current assets	378	414	36
Other assets (in £'s sterling) ..	156	190	34
	£849	£934	£85

Dividends paid out of Capital?

If Table 5 is now compared with Table 8 you will, I think, readily appreciate the alternative conclusion which I suggested it was permissible to draw from the study – namely, that the companies concerned have seemingly paid dividends out of capital.

Whereas Table 5 discloses a 'real' increase in net assets of only £85 million for the period under review, the companies have during that period raised new capital amounting to £108 million sterling (i.e. £52 million in share issues and £60 million borrowing, less £4 million reduction in minority interests). Moreover, the figure of £108 million of additional capital, if converted into £s of 1949 purchasing power, would be higher still. The semblance of misfeasance would be even worse in the eyes of those who regard the £46 million sterling of additional future tax reserve as a liability rather than a retained profit.

I am sure you will suppose, however, that as was the case with the elementary problem in algebra with which I started this article, there must somewhere be a flaw in the logical chain of reasoning that seemingly permits a conclusion so repugnant to common sense. And of course you will be right.

'Replacement cost' accounting is erected on a simple error of fact. The majority of us continue to do our accounting in pounds sterling precisely because that is the currency in which commercial transactions are still in the main carried out in this country. The directors of a company would question the sanity of a banker, or debenture-holder or preference shareholder who demanded payment of interest or repayment of principal in currency of the same purchasing power as that of the original investment.

'Replacement cost' accounting ignores the fact that inflation benefits debtors and the owners of 'tangible' assets and is detrimental to the interests of creditors and owners of cash and fixed-interest securities. This I will attempt to demonstrate from the figures given in the Federation pamphlet, although I must confess that the data given is inadequate for this purpose and I have had to supplement it by estimates of my own.

Impact of Inflation

In Table 9 I have recast the figures in Tables 4, 5 and 8 so as to show the real impact of inflation on the various interests of creditors and owners of prior charges on the one hand and the equity shareholder on the other hand in his dual capacity as owner of 'tangible' assets and 'net debtor'.

I have given a reconciliation to show that the same basis of valuation has been adopted. The material point on which it has been necessary to make an estimate, in the absence of factual information, is the important matter of the division of share capital between equity shares and prior charges. The pamphlet is silent on this point and I have assumed that roughly half the total of share capital, minority interests, short- and long-term borrowing in 1949, was in the form of equity share capital, with a somewhat higher proportion in 1938. This assumption appears to be roughly in accord with the summarized figures for 877 companies published in *The Economist* on July 28th, 1951.[1] On the information available, it seems probable that any error in my estimate, in relation to normal capitalization, is in the direction of assuming rather too high a proportion of equity share capital.

In terms of 1949 prices, the 1938 assets had a purchasing power of £506 millions in excess of cost, but in 1949 an excess of only £125 million, a net loss of purchasing power of £381 million, as follows:

Table 6

Loss of Purchasing Power due to Inflation

	Excess of Revised Values over Historical Cost		*Loss of Purchasing Power*
	1938	*1949*	
	£m	*£m*	*£m*
Fixed assets and stocks ..	349	125	224
Debtors and cash	157	–	157
Total assets	506	125	381
Less Creditors and owners of prior charges	302	–	302
Equity shareholders ..	£204	£125	£79

Table 6 demonstrates – you may think to my own consternation – that during periods of rising prices the inflated prices of fixed assets and stocks do in fact emerge as 'capital dressed up to look like profit'. But this, as you may observe, is half, or less than half, the full story.

[1]ANALYSIS OF COMPANY BALANCE SHEETS PUBLISHED APRIL–JUNE 1951 (877 companies)

	Previous Year	*Latest Year*
	£m	*£m*
Ordinary share capital – parent companies	717	735
Minority interests	137	140
	854	875
Preference share capital – parent companies	419	427
Debentures – parent companies .	253	309
Bank overdrafts and loans ..	107	118
Total	£1,633	£1,729

The purchasing power of the total assets, expressed in 1949 prices, declined by some £381 million between 1938 and 1949. But the bulk of this loss, i.e. to the extent of £302 million, was sustained, I estimate, by creditors and the owners of prior charges, only the balance of £79 million being sustained by the equity shareholders, as follows:

	In terms of 1949 £s £m
Gross loss of purchasing power due to inflation:	
Of fixed assets and stocks	224
Of debtors and cash	157
	381
Less Proportion of loss sustained by creditors and owners of prior charges	302
Net loss of purchasing power to equity shareholders	£79

Moreover, the equity shareholders alone have received additional income ('capital dressed up to look like profit') of £224 million, less tax, to set off against their loss of purchasing power. If the whole of this 'capital dressed up to look like profit' were syphoned-off by an 100 per cent excess profits tax, then the equity shareholders also would have sustained a net loss. My guess, however, is that these extra profits have not on average suffered tax at more than 60 per cent, leaving a balance of some £90 million or thereabouts to compensate for the £79 million loss of purchasing power.

The Crushing Burden of Taxation

'Replacement cost' accounting in the last analysis is a plea for insulating the equity shareholder alone from the deleterious effects of inflation. As is evident from the conclusion I have quoted from the Federation pamphlet, it boils down to a plea for reduced taxation of the profits of the equity shareholder.

You will note that it is not a plea for the reduction in general in the crushing burden of taxation, which I am sure we would all fervently applaud. Cmd. 8203 notes that out of a gross national product for the year 1950 of £11,970 million (including depreciation of £1,124 million) the proportion appropriated in the first place by central and local government amounts to £4,511 million – almost 40 per cent. We are perhaps all too painfully aware of the serious impact of taxation on our daily lives to need this grim reminder. With such a crushing burden of taxation, shared equally – or unequally – among us, it would be churlish to deny the right of any class of taxpayers to question the fairness of its share. But any such plea must be examined on its merits and not submerged in a controversy regarding accounting conventions.

We must realize the immensity of the shift in the taxation burden that the 'replacement cost' argument envisages. Mr Roland Bird, in the extract from his speech I have quoted, indicates a figure of £800 million as a measure of the over-estimation of profits in 1950 alone. If the replacement cost argument were accepted as valid for fiscal purposes, it would presumably involve a shift in a tax burden of something like £400 million from one class of taxpayer to another. In this connexion you may be interested in a summary of the distribution of direct taxation on income for the year 1950, as follows:

Table 7

DIRECT TAXATION (including National Insurance) 1950[1]

Charged on	£m
Wages	515
Salaries	388
Pay of the armed forces	22
Rent, dividends, interest, professional earnings, farm income and profits of other sole traders and partnerships ..	664
Companies (after deducting tax recovered from dividends)	761
Public corporations	16
	£2,366

Shifting the Tax Burden

My own predilection – and I make no pretence of objectivity in this respect – is a shift of the tax burden from salary-earners in general and comptrollers in particular. In pursuit of my admittedly subjective inquiry in this connexion I have, I must confess, examined the 'replacement cost' theory of accounting in a rather more favourable light.

Comparing 1939 with 1950, I was eligible for the following subsistence allowances in the computation of my income-tax:

	In terms of £s sterling 1939 £	1950 £
Personal allowance	100	110
Allowance for wife	80	70
Allowance for children (adjusted for increase in family) ..	120	120
Earned income allowance ..	300	400
Effective reduced rate allowance.	90	125
	£690	£825

Adopting the 'replacement cost' technique I must now, however, convert my 1939 allowances into terms of 1950 £s. A glance at my 'Economist Diary' suggests that the right index number to use is 186.[2] So that my 1939 allowances of £690 sterling are equivalent to £1,283 at 1950 prices. In terms of 'modern accounting' I am being swindled on my income-tax at a rate exceeding £200 a year. I must return post-haste to interview my Inspector of Taxes. I am not, however, unduly hopeful of the outcome. My fear is that he is likely to dismiss my calculations with a smile and possibly the unkind remark – 'Are the figures any use?'

[1] Extracted from Tables 9, 10 and 11 of Cmd. 8203.

[2] Index of Market Prices of Consumer Goods and Services.

Table 8

COMPARATIVE SUMMARY OF BALANCE SHEETS OF EIGHTY COMPANIES INCLUDING UNITED KINGDOM SUBSIDIARIES

	1938		*1949*	
	£m		*£m*	
Fixed assets (at written-down book value)				
Land (where separate figures available)	7		8	
Buildings, plant and machinery	127		197	
Total fixed assets ..		134		205
Current assets				
Stocks	119		331	
Debtors	57		206	
Cash and cash assets	54		95	
Total current assets	230		632	
Less Current liabilities ..	73		218	
Total net current assets ..		157		414
Other assets				
Goodwill, patents, etc. ..	55		57	
Investments, including investments in subsidiary companies not consolidated	101		133	
Total other assets ..		156		190
TOTAL NET ASSETS ..		£447		£809

	1938	*1949*
Financed by:	*£m*	*£m*
Share capital	273	311
Minority interests	23	19
Share premiums	10	24
E.P.T. post-war refunds ..	—	14
Reserves created by revaluation of assets	4	11
Other reserves including profit and loss balances	94	272
Borrowed money – long-term ..	25	40
short-term ..	6	51
Deferred liabilities	4	13
Tax reserves	8	54
TOTAL NET ASSETS	£447	£809

Table 9

ANALYSIS OF HISTORICAL COST AND REVISED VALUES AT 1949 PRICES OF BALANCE SHEETS OF EIGHTY COMPANIES TO ILLUSTRATE EFFECT OF INFLATION

(A) *1938 Balance Sheets at Historical Cost and revised to 1949 prices*

	Historical Cost	*Revised*	*Increase*
Total assets	*£m*	*£m*	*£m*
Fixed assets	134	315	181
Stocks	119	287	168
Debtors and cash	111	268	157
Other assets*	156	156	–
Total assets	£520	£1,026	£506
Creditors and prior charges	*£m*	*£m*	*£m*
Borrowed money:			
Long-term	25	60	35
Short-term	6	14	8
Deferred liabilities ..	4	10	6
Current liabilities	73	177	104
Preference capital: estimated	106	255	149
Total	£214	£516	£302
Equity capital	*£m*	*£m*	*£m*
Share capital and minority interests	296		
Less Preference capital – estimated	106		
	190		
Share premium	10		
Retained profits	98		
Future income-tax ..	8		
Total	£306	£510	£204
	£m	*£m*	*£m*
Total of interests in assets ..	£520	£1,026	£506
Reconciliation with Tables 4 and 5	*£m*	*£m*	*£m*
Net assets – Tables 4 and 5	447	849	
Add Current liabilities ..	73	177	
Total assets – above ..	£520	£1,026	

(B) *1949 Balance Sheets at Historical Cost and revised to 1949 prices*

	Historical Cost	*Revised*	*Increase*
Total assets	*£m*	*£m*	*£m*
Fixed assets	205	330	125
Stocks	331	331	
Debtors and cash	301	301	–
Other assets*	190	190	–
Total assets ..	£1,027	£1,152	£125
Creditors and prior charges	*£m*	*£m*	*£m*
Borrowed money:			
Long-term	40	40	–
Short-term	51	51	–
Deferred liabilities ..	13	13	–
Current liabilities	218	218	–
Preference capital: estimated	120	120	–
Total	£442	£442	–
Equity capital	*£m*	*£m*	*£m*
Share capital and minority interests	330		
Less Preference capital – estimated	120		
	210		
Share premiums	24		
Retained profits	297		
Future income-tax	54		
Total	£585	£710	£125
	£m	*£m*	*£m*
Total of interests in assets	£1,027	£1,152	£125

* At historical cost throughout.

THE ROYAL COMMISSION
ON THE TAXATION OF PROFITS AND INCOME
New Chairman and Terms of Reference

IT was announced in the House of Commons last Tuesday that Lord Waverley had been appointed chairman of the Royal Commission on the Taxation of Profits and Income in place of Lord Cohen, who resigned on being appointed a Lord of Appeal in Ordinary. Lord Waverley is perhaps better known as Sir John Anderson who was created a peer last January. He is not unacquainted with the problems of taxation, having been chairman of the Board of Inland Revenue from 1919 to 1922 and Chancellor of the Exchequer from 1943 to 1945. He is sixty-nine years of age and was educated at George Watson's College, Edinburgh, and at the Universities of Edinburgh and Leipzig.

Mr James Millard Tucker, Q.C., has been appointed vice-chairman of the Commission.

New Terms of Reference

Simultaneously with the appointment of its new chairman, the Commission's terms of reference[1] have been altered in a significant manner. Before the alterations, the terms of reference concluded as follows:

'... to make recommendations consistent with maintaining the same total yield of the existing duties in relation to the national income.'

Time and again witnesses before the Commission have stressed that these words must greatly hamper the usefulness of the Commission's work, and that it was illogical to isolate income taxation in this manner from alternative methods of raising revenue. The Government has now replaced the words quoted above by the following:

'... to make recommendations bearing in mind that in the present financial situation it may be necessary to maintain the revenue from profit and income: and, in so far as they make recommendations which would on balance entail a substantial loss of revenue, to indicate an order of priority in which such recommendations should be taken into consideration.'

This alteration will give the Commission much greater freedom in considering the evidence laid before it and in devising a more satisfactory income-tax and profits tax system.

[1] *The Accountant*, dated December 23rd, 1950, at page 630.

WEEKLY NOTES

The Association's Examination Results

In the December 1951 examinations of the Association of Certified and Corporate Accountants there were 1,866 candidates, and the results, now published, show that of this total, 960 sat for the Final examination. In Sections I and II of the Final there were 64 candidates, of whom 17 (27 per cent) passed, the First Place, Association Medal and Prize being won by Mr D. H. Gillan, of Oldham. In Section I only, 244 candidates out of 471 (52 per cent) were successful and the First Place and Prize was awarded to Mr P. J. Davis, of London. In Section II only, 186 candidates passed (44 per cent) and 239 failed, the First Place and Prize going to Mr N. H. Smith, of London.

In the Intermediate examination, 867 candidates sat, of whom 422 (49 per cent) were successful, the First Place and Prize being won by Mr J. E. G. Arnold, of Portsmouth.

There were 38 candidates for the Preliminary examination with 29 passes (76 per cent).

A list of successful candidates in all sections of the Final and a full summary of the results appear elsewhere in this issue.

Income Tax Consolidation

As we announced last week, the Income Tax Consolidation Bill received its second reading in the House of Commons on February 19th last. In moving it, the Attorney-General said that the augean conditions of the present revenue law necessitated two stages when cleaning up. Consolidation was the first stage, but the House would be deceived if it were left in the belief that the second stage, codification, was anything but a very long way ahead indeed. The Royal Commission was now sitting 'and it may very well be that they will make proposals which will require careful consideration'. After this tactful reference the Attorney-General gave as his opinion that the only people who would really regret the contents of the Consolidation Bill were the tax experts, because now it would be possible for anyone to start trying to find out in the Bill what the income-tax law was about. The operative word here is no doubt 'trying'. We were under the impression that it was precisely the tax experts who had always been the most vocal in calling for a simplification of the income-tax statutes. The Attorney-General devoted a good deal of his speech to encomiums of those persons responsible

for the drafting of the Bill. Let us hope that these praises are echoed by the Courts which later will have to interpret it.

Steel Chairman Resigns

Mr Steven Hardie has resigned from the chairmanship of the Iron and Steel Corporation. The occasion of his decision has been a disagreement with the Minister of Supply about price policy in the steel industry. It had been expected for some time that an increase in steel prices was imminent and the reason for delay in putting these into effect is now apparent.

It has been Mr Hardie's opinion that steel prices should not be increased and that the higher prices paid for imported American steel should not be passed on to the consumer. He would have preferred that these increases should be carried out of the higher gross profits of the steel industry. Mr Hardie's statement on his resignation does not make it clear that he meant gross profits (gross in the sense of before taxation and before special provision for development out of income). But from the figures which he quoted it is clear that this is what he meant.

The Minister has been unable to endorse his views and his resignation has been accepted.

Higher Steel Prices

It was announced in the House of Commons this week that average iron and steel prices are to be increased by £4 a ton. It was also announced that Sir John Green, deputy-chairman of the Iron and Steel Corporation, has been appointed to succeed Mr Hardie as chairman.

The changes in prices have come into effect this week and are expected to yield about £56 million a year additional revenue to the industry. On the other hand, costs have gone up by about £75 million. The difference will be made up, it is expected, out of the earnings of the industry.

While an increase in the price of steel at this time will be bound to increase costs, and hence the prices of many user industries, there is a widespread opinion that the shortage of the metal should be reflected in an increase in its price, or compared with imported steels, British prices are comparatively low.

Suspension of T.D.Rs.

Last week-end a statement was issued from the Treasury that the Chancellor of the Exchequer has decided to suspend the use of Treasury deposit receipts as a means of short-term finance. The final repayment this week of £15 million outstanding thus brings to an end, at least for the time being, a somewhat unpopular technique of Government financing.

T.D.Rs., as they have long been called, came into existence in 1940 when it was considered desirable to reinforce the ordinary machinery of the money market by a direct contact between the Government and the banks. Naturally, large-scale bombing and perhaps even invasion would put a severe strain on the City's day-to-day functioning. Accordingly, the London clearing banks and the Scottish banks were asked (in effect required) to leave some of their surplus funds with the Exchequer. These funds were not negotiable and were of six months currency. They carried a slightly higher rate of interest than the ordinary Treasury bill.

Purchase Tax

The report of the committee set up by the Chancellor of the Exchequer in July 1951 under the chairmanship of Sir William Douglas, to 'review the present system of purchase tax affecting those classes of goods within which utility schemes operate ...' was published recently. The committee's report contains some interesting recommendations; it has arrived at the conclusion that the simplest way in which cheaper goods can be relieved of the tax, without creating sudden disproportionate jumps in the amount of the tax payable, is by charging tax only on the *excess* of the value of the article over the tax-free limit. It also recommends, *inter alia*, that the present exemption of utility goods from the tax should be replaced by a system of deductions from wholesale value applying to utility and non-utility goods alike.

If these proposals are implemented by the Government – and this will only be revealed when the Chancellor makes his Budget statement – the ever-recurring problem around Budget time each year as to the possible repercussions of alterations in the tax, will be intensified. Whilst the rate of tax remains static, no difficulty arises; but when a variation in the incidence or rate of tax is likely to take place in the future, the retailer, for his own protection, is disinclined to carry a larger quantity of stock than is absolutely necessary for his needs, with the result that orders for goods from manufacturers and wholesalers fall off, and the whole tempo of the wheels of industry and trade tend to slow down.

The position is not so bad when the rate of tax is increased, since tax at the lower rate will have been paid on the stock before the change, and subsequently the retailer suffers no loss by selling the goods bearing the lower rate of tax, with which he himself has been charged. The difficulty arises, however, in cases where either the tax is withdrawn or reduced, for the retailer will have suffered tax on the goods bought by him before the change at the old and higher rates.

The legal difficulty, it may be suggested, can be largely overcome by devising a scheme whereby property in the goods is not to pass, under what otherwise would be a chargeable purchase, until either the goods are resold to the public, or the change in the rates of tax has become operative. But this solution in a particular case may be found to be difficult to put into practice, because the registered seller may not be willing to do business on those terms. The alternative remedy is to alter the law and to make statutory provision for relief in cases where the unregistered buyer, the retailer, will stand to lose by alterations in the incidence in rate of tax.

FINANCE AND COMMERCE

Postponement of the Budget until March 11th has naturally proved disappointing to stock markets. It means another week of uncertainty and inactivity.

Petrochemicals

We reprint this week the consolidated accounts presented at the sixth annual general meeting of Petrochemicals Ltd. They show the financial position of a pioneer enterprise developing new processes for the extraction of chemicals from oil. The development has taken longer than expected.

The pioneers were over-enthusiastic; there were delays in the erection of plant owing to late deliveries and labour difficulties; the plant when in commission had teething troubles which upset the production schedule. And as time moved on, prices for the products moved against the producer. All plants are now in operation but a continuing shortage of chlorine has not enabled full advantage to be taken of improved plant performance.

Since these accounts were closed, current revenue expenditure (excluding interest), the chairman reports, has been covered by current income, but after making provision for depreciation and interest on loans there will inevitably be a further loss during the current year.

There has also to be faced the termination, on March 31st next, of the moratorium on interest on funded debt. Clearly the payment of the interest on that date in one lump sum, says the chairman, will not prove possible and negotiations for extension of the moratorium will be necessary.

No Admission

One of the most interesting facets of company administration is the relationship with the Press. The gentlemen of the financial columns carry a grave responsibility which they exercise with varying degrees of dignity. They are the critics of financial policy, beholden to no one except their editors-in-chief. Should a company raise new capital by issue to the public or to shareholders, they discuss the terms. If the new capital is placed privately, they inspect the register and announce which insurance company or other institutional investor has provided the money.

The majority of public companies with securities having a Stock Exchange quotation encourage this relationship – also with varying degrees of dignity. Many maintain Press officers. Directors' telephones are open to Press inquiries. Annual accounts are provided for such notice as space and importance justify. And the gentlemen of the Press turn up at company meetings without let or hindrance to gather such news as the occasion may provide.

The curious thing about this relationship is that it has no sanction except that it is part of the British way of life. Company law makes no provision for publicity except through the Bush House file and the opening of the registers at the company's office for public inspection.

All this has been brought to the fore by the refusal of the directors of Turner & Newall Ltd, the asbestos combine, to allow admission to the Press at the

PETROCHEMICALS LIMITED and its Subsidiary Companies
Consolidated Profit and Loss Account
for the year ended June 30th, 1951

(Incorporating the results of the Parent Company and of one Subsidiary Company for the year ended June 30th, 1951, and of one Subsidiary Company for the period from May 11th, 1950, the date of incorporation of the Company, to June 30th, 1951.)

1950 £	1950 £		£	£
931,673		Excess of expenditure over income for the year, excluding expenditure charged directly to Capital Accounts, and before charging the items shown separately below ..		956,188
		Add: Directors' Remuneration:		
	3,359	Fees of Directors of Petrochemicals Ltd	2,246	
	1,750	Contribution to the Fees of those Directors of Petrocarbon Ltd who are also on the Board of Petrochemicals Ltd	450	
	5,109	Total Fees paid to Directors of Petrochemicals Ltd	2,696	
	20,036	Other Emoluments	19,800	
	25,145		22,496	
	730	Contribution to the Fees of Directors of Petrocarbon Ltd who are not Members of the Board of Petrochemicals Ltd	180	
	25,875		22,676	
	13,718	Staff Assurance and Pensions Fund	16,190	
	2,016	Auditors' Remuneration	3,232	
	140,444	Interest on Fixed Loans	227,993	
	6,324	Interest on Temporary Advances	42,306	
		Provision for Depreciation:		
	200,000	Buildings, Plants and Installations £341,554		
	32,728	Other Fixed Assets .. 26,189		
			367,743	
421,105				680,140
1,352,778				1,636,328
519,730		*Deduct* Expenditure included above attributed to Construction, other items of a Capital nature, and Research		676,761
833 048				959,567
—		*Add* Profit attributable to Outside Shareholder of a Subsidiary Company		11,114
833,048				970,681
2,159 (Loss)		*Add* Profit, *less* loss retained in Subsidiary Companies		15,382
836,889		Loss of Parent Company for the year ended June 30th, 1951		986,063
215,234		*Add* Loss brought forward from previous year		1,046,123
1,046,123		Balance carried forward in Accounts of Parent Company		2,032,186
	2,159 (Loss)	*Deduct*: Subsidiary Companies – Parent Company's proportion – Profit *less* loss retained	15,382	
		Less Amounts written off:		
		Formation Expenses .. £1,355		
		Expenditure on Research Equipment 3,371		
	—		4,726	
	2,159		10,656	
	1,607	*Less* Loss brought forward from previous year	3,766	
3,766		Balance (Profit) carried forward in Accounts of Subsidiary Companies		6,890
£1,049,889		Balance (Loss) carried forward on Consolidated Balance Sheet ..		£2,025,296

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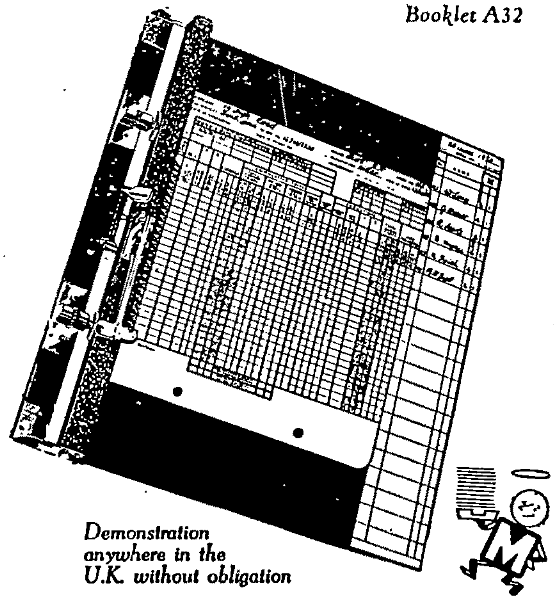

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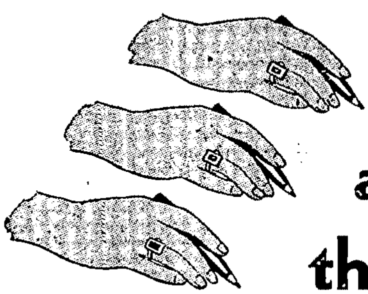

PETROCHEMICALS LIMITED and its Subsidiary Companies
Consolidated Balance Sheet as at June 30th, 1951

1950 £	1950 £		£	£
		Share Capital of Petrochemicals Ltd		
		Authorized:		
	4,600,000	4,600,000 Ordinary Shares of £1 each (See Note 1)	4,600,000	
	100,000	100,000 5 per cent Preference Shares of £1 each	100,000	
	£4,700,000		£4,700,000	
		Issued:		
2,612,500		Ordinary Shares of £1 each, fully paid		2,612,500
90,000		5 per cent Preference Shares of £1 each, fully paid, cumulative as from July 1st, 1951		90,000
2,702,500				2,702,500
		Interests of Outside Shareholder		
—		Share Capital of a Subsidiary Company held by an Outside Shareholder and proportion of undistributed profit attributable thereto		167,964
		Secured Loans		
	—	5 per cent Prior Lien Stock, 1953	2,350,000	
	1,800,000	4 per cent Loan Stock, 1954 (See Note 1)	1,800,000	
	18,000	*Add* Interest payable accrued to June 30th, 1950	—	
	1,818,000			
	2,500,000	5 per cent Second Loan Stock, 1959	2,500,000	
	29,932	*Add* Interest payable accrued to June 30th, 1950	—	
4,347,932	2,529,932			6,650,000
		Current Liabilities		
	64,685	Amount due in respect of Income Tax deducted from Loan Interest and Royalties	20,682	
	—	Bank Overdraft	238,168	
	295,623	Trade Creditors and Accrued Charges	287,148	
360,308				545,998
		Deferred Liabilities		
		Deferred Interest on:		
	—	5 per cent Prior Lien Loan Stock, 1953	31,022	
	—	4 per cent Loan Stock, 1954	89,951	
	—	5 per cent Second Loan Stock, 1959	152,362	
	—		273,335	
	51,293	Former 4 per cent Registered 'B' Notes of Petrocarbon Ltd due September 30th, 1951	51,293	
	—	Temporary Advances	42,306	
51,293				366,934
£7,462,033				£10,433,396

Note. – The first three of the above items, totalling £273,335, are secured.

The notes on page 12 are to be read as part of this Balance Sheet.

[*The notes are not reproduced – Editor.*]

1950 £	1950 £		£	£
		Fixed Assets		
91,735		**Freehold Properties**, at cost, *less* sales		91,735
	3,702,991	**Buildings, Plants and Installations**, at cost (including work in progress of approximately £200,000) (See Note 2)	4,749,919	
		Expenditure not yet specifically allocated to Buildings, Plants and Installations:		
	708,893	Engineering Design, Technical Supervision and Administrative Expenses	894,147	
	176,492	Plant Design and Process Research	182,381	
	4,588,376		5,826,447	
	250,000	*Less* Depreciation	591,554	
4,338,376				5,234,893
	121,966	**Office, Laboratory and Canteen Furniture and Equipment, and Motor Vehicles**, at cost (See Note 2)	109,533	
	42,280	*Less* Depreciation	42,806	
79,686				66,727
	80,139	**Engineering Plant and Equipment**, at cost (See Note 2)	80,051	
	36,224	*Less* Depreciation	46,799	
43,915				33,252
4,553,712				5,426,607
30,675		**Patent Licences, at cost**		30,675
192,264		**Amount owing by Subsidiary not consolidated**		—
		Trade Investments		
242,000		Shares in Associated Companies, at cost		287,000
		Current Assets		
		Stocks as valued by Officials of the Companies:		
	359,221	Oils and Chemicals, including intermediate and finished products	974,397	
	222,494	Engineering and Other Stocks	274,771	
	581,715		1,249,168	
	220,407	Sundry Debtors and Payments in Advance	625,611	
	101,636	Bank Balances and Cash in Hand	180,910	
903,758				2,055,689
		Development Account		
	201,423	Expenditure on Development and on Research	311,878	
	49,105	Expenditure of a Revenue nature incurred prior to the date of commencing trading	49,105	
250,528				360,983
1,049,889		**Profit and Loss Account**		2,025,296
		Expenditure in Connexion with the Formation and Financing of the Companies		
	22,901	Preliminary and Initial Financing Expenses	22,901	
	55,188	Expenses in connexion with the Issues of Shares and Secured Loan Stocks	63,127	
	39,375	Underwriting Commissions paid on Issue of Ordinary Shares	39,375	
	117,464		125,403	
		Interest payable in respect of the period up to the date of commencement of trading:		
	70,450	Paid	70,450	
	51,293	Deferred	51,293	
239,207				247,146
£7,462,033				£10,433,396

company's annual meeting. The company's policy, it was stated, was to restrict attendance at annual meetings to ordinary stock holders.

It is a matter for regret that a relationship which appears to have satisfied a public need for so long should suffer this fate. And in this comment, we are not concerned with the motives for the board's action which has provided a sharp reminder that the company has its rights and the Press only its privilege.

In its reaction, the Press seems to have suffered its loss of privilege with reasonable dignity. The final comment of 'Lex' in the *Financial Times* is worth quotation. 'The general principle of the admission of the Press to meetings of public companies,' he wrote, 'is perhaps yet another matter for the agenda of the next Cohen Committee – unless, before that doubtless distant date, the Stock Exchange Council cares to consider the matter.'

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

Samuel Jones & Co (Devonvale) Ltd *v.* C.I.R.

In the Court of Session (Inner House)
December 13th, 1951
(Before the LORD PRESIDENT (Lord COOPER) Lord CARMONT and Lord RUSSELL)

Income-tax – Factory – Replacement of chimney – Whether cost deductible – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*a*), (*d*).

The appellant carried on the business of processing paper in a large group of buildings, the power for which was supplied by a steam plant discharging into a chimney. The chimney had existed for 80 to 90 years, but as a result of increasing age and the subsidence of its foundations, the company had to replace it. In order to keep the works operating the company erected a substitute chimney, and took down the old chimney when the new one was ready to function. The new chimney was not an appreciable improvement over the old chimney. No additional steam-raising plant had been installed. The expenditure on constructing the new chimney was £4,363, and the cost of removing the old chimney was £260.

The Special Commissioners decided that although the £260 was an admissible deduction in the appellant's income-tax computation, the £4,363 was not deductible by reason of Rule 3 (*d*) of Cases I and II of Schedule D.

Held, that the £4,363 was deductible for tax purposes.

In re Lambton's Marriage Settlement

In the High Court of Justice (Chancery Division)
December 19th, 1951
(Before Mr Justice HARMAN)

Estate duty – Settlement – Annuity to wife and remainder of income to husband – Whole income payable to survivor – Death of husband – Whether entirety of fund passed on husband's death – Succession Duty Act, 1853, *Section* 38 – *Finance Act,* 1894, *Sections* 1, 2, 5 (3) – *Finance Act,* 1938, *Section* 48.

By a marriage settlement the trust fund was settled to pay out of the income an annuity of £400 to the wife, and to pay the balance of the income to the husband, and, subject thereto, to pay the income to the survivor of the husband and wife for life, with remainder to the children of the marriage absolutely. The husband died and was survived by his widow. The value of the trust fund was then about £17,000, and the capital value of the wife's annuity about £11,000.

The Inland Revenue claimed estate duty on the entirety of the trust fund on the ground that the whole fund passed on the husband's death. It was contended on behalf of the trustees that estate duty was not payable upon the entire fund, but upon that slice of it that would be left after deducting a sum representing the capital value of the wife's annuity.

Held, that the whole fund passed on the husband's death, and that by reason of the terms of Section 48 of the Finance Act, 1938, no deduction was allowable in respect of the wife's annuity.

C.I.R. *v.* Fleming & Co (Machinery) Ltd

In the Court of Session (Inner House)
December 19th, 1951
(Before the LORD PRESIDENT (Lord COOPER), Lord CARMONT, Lord RUSSELL and Lord KEITH)

Income-tax – Cessation of agency – Representing 30 *to* 45 *per cent of earnings – Restrictive covenant by company and directors – Whether sum received for loss of agency a deductible receipt – Income Tax Act,* 1918, *Schedule D, Case I.*

The respondent carried on business as an agent and merchant for the sale of machinery and explosives, and had held an agency in explosives for Imperial Chemical Industries Limited. This agency was at will, but it represented 30 to 45 per cent of the company's earnings. The company had eight other agencies for machinery.

In 1948 the agency with Imperial Chemical Industries Limited was terminated under an agreement between the respondent, Imperial Chemical Industries Limited, and the directors of the respondent company whereby: (1) the agency agreement was terminated upon payment to the respondent of £5,320 as compensation for the loss of the agency; (2) the respondent and its directors gave a restrictive covenant in consideration of £590; and (3) the company's explosives stores and magazines were assigned to Imperial Chemical Industries Limited for £800.

The Inland Revenue conceded that the £590 and

£800 were not taxable receipts, and the company contended that the £5,320 was also not taxable. The General Commissioners were equally divided, and therefore gave their decision in favour of the respondent.

Held, that as the £5,320 was received for the loss of one agency out of several, and that such a loss was a normal trading risk, the sum received was a trading receipt of the respondent.

C.I.R. *v.* Corporation of London (as Conservators of Epping Forest)

In the High Court of Justice (Chancery Division)
December 21st, 1951
(Before Mr Justice DONOVAN)

Income-tax – Charity – Payment to charity under statute of such yearly sums as might be necessary – Whether annual payments – Epping Forest Act, 1878, *Sections* 3, 31, 33, 39, 41, 42 – *Income Tax Act,* 1918, *Case III, Rules* 1*a*, 2 (1) (*b*), 2 (2), *General Rule* 19.

Between 1871 and 1878 the Corporation of the City of London spent about £250,000 in acquiring manorial and other rights in Epping Forest for the purpose of constituting the Forest as an open space for the benefit of the public. By the Epping Forest Act, 1878, a private Act passed at the instance of the Corporation, it was provided that the Forest should be managed by the Corporation as the Conservators of Epping Forest, and the duty was placed upon the Conservators of preserving and maintaining the Forest as an open space for the recreation and enjoyment of the public. The Conservators' revenue came from a number of sources, such as rents, licence fees, tolls, sales of wood and fees for playing on a golf course in the Forest area.

Section 39 (1) of the Epping Forest Act, 1878, requires the Corporation from time to time to contribute to the capital and income of a fund, to be called the Epping Forest Fund, such moneys as shall be necessary out of the City of London grain duty or from other sources, and the subsection goes on to direct what other items are to be credited to the income of the Fund. The City of London grain duty ceased in 1902, and since then the Corporation has contributed, under Section 39 (1), out of its own resources. Section 41 (2) requires the Conservators to 'apply the income of the fund in payment of rents, salaries, taxes, insurances and other current expenses attending the execution of their powers and duties. . . .' By Section 42 the accounts of the Conservators have to be audited yearly, and a copy has to be available, free of charge, to any person interested in Epping Forest.

Section 31 of the Act establishes a committee, called the Epping Forest Committee, which consists of members of the Common Council and the verderers of the Forest, and the committee exercises all the powers of the Conservators. The payment made by the Corporation during the accounting period ended March 31st, 1949, under Section 39 (1) of the Epping Forest Act, 1878, was £16,006 3*s* 4*d*, and in making this payment the Corporation deducted £8,803 7*s* 10*d* as income-tax. It was admitted that the Conservators of Epping Forest were a separate body of persons from the Corporation, and that they were a charity.

It was contended on behalf of the Conservators that the £16,006 3*s* 4*d* was an annual payment within Case III of Schedule D; that in making the payment the Corporation was entitled under General Rule 19 to deduct income-tax at the standard rate; and that as the Conservators were a charity, they were entitled to repayment of the sum thus deducted. The Special Commissioners decided in favour of the Conservators' claim.

Held, that the £16,006 3*s* 4*d* was not an annual payment, in that it was not a pure income receipt of the Conservators, but was a portion of their revenue against which they were entitled to set expenses in arriving at their income; and that, therefore, the claim to repayment of tax was not allowable.

Thomas *v.* Marshall

In the High Court of Justice (Chancery Division)
December 20th, 1951
(Before Mr Justice DONOVAN)

Income-tax – Settlement on children – Deposits in Post Office Savings Bank in names of children – Drawings expended for children's benefit – Gifts of Defence Bonds to children – Whether sums thus drawn and Defence Bond interest income of parent – Whether separate assessments not exceeding £5 each competent – Finance Act, 1936, *Section* 21 – *Finance Act,* 1938, *Sections* 38 (2), 41 (4) (*b*).

The appellant paid a number of sums of money into accounts at the Post Office Savings Bank in the names of his two infant and unmarried children. Some of the money thus deposited was expended for the children's benefit. The appellant also gave Defence Bonds to each of his children.

It was contended for the appellant that the gifts of the sums placed in the Post Office Savings Bank, and the gifts of the Defence Bonds, were not 'settlements' within Section 21 (9) (*b*) of the Finance Act, 1936. It was also contended that each sum not exceeding £5 was a separate settlement, and that there was nothing in Section 21 (4) of the Finance Act, 1936, to prevent a parent making any number of settlements not exceeding that sum upon his infant and unmarried children. The General Commissioners decided against the appellant on the first contention, but in his favour on the second.

Held, (1) that the gifts of the sums of money placed in the Post Office Savings Bank, and the gifts of the Defence Bonds, though out-and-out gifts to the children, were settlements within Section 21 (9) (*b*) of the Finance Act, 1936; (2) that it was not permissible to treat every gift not exceeding £5 to a child as a separate settlement, so that any number of such settlements could be made without bringing Section 21 (1) of the Act into operation.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Receiver and Preferential Creditors

SIR, – I was appointed receiver for the debenture holders of a company about a year ago and a few days after my appointment the company went into compulsory liquidation. The assets consisted of plant and book debts, the latter consisting largely of claims from contractors which had not been agreed, and the amount received has, so far, fallen very short of the optimistic estimate of the directors.

It now appears that sufficient money will not be received by me to cover the preferential creditors and consequently there will be nothing for the debenture holders. I shall be obliged if any reader can advise me on two points: firstly, to confirm that it is still my responsibility to agree and to pay the preferential creditors, and secondly, is it necessary for me to agree with the preferential creditors my fee? In the normal case this would be agreed with me by the debenture holder, but as he is strictly not an interested party, I suspect that it would be advisable to at any rate consult the preferential creditors.

Yours faithfully,
RECEIVER.

Profits Tax

SIR, – We should be glad of your readers' views on the following profits tax points. The facts are as follows:

(1) A company which is director-controlled makes up its accounts to November 30th, 1951.

(2) There have always been two directors who qualify as 'whole-time directors'.

(3) Drawings on account of salary are made at an agreed rate throughout the year with an adjustment at the end of the year for any additional amount which it is desired to pay. P.A.Y.E. is deducted from all payments when made.

(4) The company charges in its accounts to November 30th, 1951, the exact amount which is allowable for profits tax, viz.:

(1/12th × £2,500 = £208) + (11/12ths × £3,500 = £3,208
Total = £3,416.

The Inspector of Taxes, whilst admitting the inequity, maintains that the £3,416 must be apportioned on a time basis over the two chargeable accounting periods giving figures of £283 and £3,133 respectively. Then in the first period there is excess remuneration of £75 and in the second chargeable accounting period the amount allowable is restricted to that actually paid, i.e. £3,133 – a disallowance of £75.

Unfortunately there is no indication as to the periods in respect of which the remuneration is payable, other than the fact that all of it is charged in the accounts to November 30th, 1951. The Inspector states, however, that even if there were a minute specifically allocating £208 to December 1950 and £3,208 to the period January to November 1951, he would still probably seek to apportion the salary on a time basis.

The position is anomalous in that in this case the fact that the salaries drawn exactly equal the amount allowable makes the intention obvious and in order to obtain the full benefit of the increased remuneration allowance it would be necessary to pay directors' remuneration of £3,500 for the year – thus increasing the excess remuneration in the first chargeable accounting period.

In this particular case the additional tax involved is small, but with a different date for the end of the financial year and an increase in the number of whole-time directors the sum involved might be material.

Yours faithfully,
JAYBEE.

Revalorization

SIR, – The question is sometimes posed in your columns, as it is in the letter from Mr K. Blundell entitled 'Balance Sheets in the Future' in your issue of February 23rd, as to whether arguments for basing depreciation on current replacement values will be as acceptable during a *period of deflation* as they are during an *inflationary* period.

Is not the answer to be found in what happened during the depression of the 1920s when the writing down of capital (and with it a reduction in the annual depreciation charge) was commonplace? Does any business man doubt that the same process may have to be undertaken again?

Lest I be misunderstood, let me make it clear that I would not contemplate wear and tear allowances for tax purposes being, over the whole of a company's life, less than the cost of its depreciable assets, but that is not the same point as the treatment in accounts.

Yours faithfully,
London, N21. CHAS. W. ASTON.

Companies Act, 1948: Variation of Shareholders' Rights: Minutes of Meeting

SIR, – With reference to the query raised by your correspondent 'Kayam' (February 16th issue) concerning the occasion on which, and person by whom, minutes of a meeting of preference shareholders should be confirmed and signed, I would submit that the question should be dealt with from two standpoints: (1) the legal position, and (2) the practical aspect.

So far as the legal position is concerned, it would appear that there is no necessity to enter minutes of proceedings at meetings held pursuant to Section 72

of the Act, since Section 145 dealing with minutes of meetings provides for the entering of minutes only in respect of (*a*) general meetings of the company, and (*b*) meetings of directors and managers.

From the practical standpoint, however, it would seem desirable to record the proceedings of such a meeting in the form of minutes and it is suggested that as far as confirmation and signing is concerned the procedure mentioned in paragraph 2, Section 145, Companies Act, 1948, be followed, although, of course, the section does not refer to minutes of such a meeting. Applying the section to the meeting in question involves the signing of the minutes by the chairman of the meeting and this, of course, can be done without the necessity of holding a further meeting of the preference shareholders.

It is assumed that the company's articles of association fail to make provision for the matter.

Yours faithfully,
G. H. GRAINGER,
Birmingham, 32. A.C.I.S., A.A.C.C.A., A.T.I.I.

SIR, – Your correspondent 'Kayam' should have no difficulty in obtaining the signature of the chairman to the minutes of a meeting of preference shareholders. These can be signed at the meeting or immediately afterwards.

The reading of minutes at a subsequent meeting is unnecessary and the chairman's signature is all that is required to give the minutes statutory effect.

Yours faithfully,
Bristol, 7. L. C. WORRALL.

Assessments upon Executors of a Deceased Taxpayer

SIR, – We have been interested to note in your issue of February 23rd, the letter from 'F.C.A.' regarding the issue of assessments, apparently out of date, upon executors of a deceased taxpayer.

In a different connexion we had a somewhat similar experience and, in appealing against a 1944–45 assessment, we concluded our letter:

> 'we would mention that the assessment is dated April 9th, 1951, which is four days more than six years after April 5th, 1945. We would, therefore, inquire whether it complies with statutory time limits.'

The Inspector replied:

> 'The assessment for 1944–45 was signed by the Commissioners on April 5th, 1951, i.e. within the six-year limit. The issue of the notice after April 5th, 1951, does not of course in any way invalidate the assessment.'

Yours faithfully,
C. W. & CO.

SIR, – If I may be permitted to express an opinion on one particular point raised by 'F.C.A.', in your issue dated February 23rd, concerning the question of assessments upon executors of a deceased taxpayer, I would suggest that the mere technical point of the assessments being dated (with a rubber stamp) 'April 7th, 1951', can clearly in no way be upheld as justification for the avoidance of liability to tax apparently already agreed to by the parties concerned.

Even so, again considering only the point of the assessments being dated two days after the last day permitted by statute, avoidance would be justified in the eyes of the law, and from a lawyer's point of view if the position were reversed, no 'quarter' would be given. This point alone should be seriously considered.

But it is evident, I think, that the main issue confronting your correspondent is a moral one, and I suggest that the question he has to answer is whether to place himself in the place of a lawyer and insist on his legal rights, or whether, as an accountant of good reputation, and with adequate regard for what is clearly equitable – and not forgetting his own future relations with the Inspector – he advises his client to settle his liability, which it is evident had already been orally agreed to within the stipulated period.

Yours faithfully,
A.C.I.S.

Position of Liquidator at Meeting called under Section 288, Companies Act, 1948

SIR, – Since the following matter is of considerable interest and importance to practising accountants I believe your readers might like to consider my following observations:

Where a liquidator, appointed by the members following a declaration of solvency, calls a meeting of creditors under Section 288, Companies Act, 1948, it is my view that the creditors are not empowered to replace him as liquidator by their own nominee or to appoint their nominee to act jointly with him.

The section denotes that the purpose of the meeting is that the liquidator appointed by the members shall lay before the meeting a statement of assets and liabilities of the company.

It is provided that a liquidator, who has reason to believe that a declaration of solvency filed under Section 283 is not likely to be fulfilled within the stated period, should lay the facts before a meeting of creditors who are then enabled to decide whether to exercise their right of presenting a petition to have the company wound up by the Court.

Once Section 288 operates, Section 299 (concerning annual meetings) and Section 300 (concerning the final meeting and dissolution of the company) replace Sections 289 and 290 for the purposes of winding up. But this is not of such initial importance as the major point at the outset, namely, the position of the liquidator who calls the meeting under Section 288.

The only business of a meeting under Section 288 being apparently the presentation of the statement of assets and liabilities, it seems fairly obvious that the liquidator, who acts as chairman, does not have to allow resolutions concerning the appointment by the creditors of any other liquidator or of a committee of inspection.

In view of the operation of Sections 299 and 300, it seems that the liquidation proceeds after the meeting of creditors in some other respects 'as if the winding-up were a creditors' voluntary winding-up and not a members' voluntary winding-up' but there does not appear to be any duty on the liquidator of bringing directly to the notice of the Registrar of Companies that a meeting under Section 288 has been called save by advertisement in the *Gazette*.

It is, of course, open to a liquidator calling a meeting under Section 288 to resign but, it is my view, if he does so, that the members are then entitled to appoint another liquidator in his place and that even in that event the creditors have no power of appointment.

It will be understood that circumstances in a liquidation may be such that a liquidator is not necessarily in a position to form an 'opinion that the company will not be able to pay its debts in full within a period stated in the declaration' soon after his appointment. For example, an unexpected recession of market value of stocks as recently in the wool industry, or the unexpected failure of a substantial debtor, or the crystallization of contingent claims (perhaps also in turn through very large and unexpected losses on stocks) at substantially higher sums than originally estimated, could produce a situation covered by Section 288. Such position might arise very shortly after the liquidator's appointment by the members or it might even be almost twelve months afterwards. Obviously, a liquidator would have proceeded meanwhile with the realization of assets and he may have made much progress in the admission of claims, assignment of tenancies, etc.

I believe that those who drew Section 288 had not overlooked that it did not provide for the appointment of a creditors' nominee as liquidator instead of, or jointly with, the members' nominee. In fact, they might well have appreciated that because a meeting under the section might be called at any time within a period of twelve months from the date of the declaration of solvency, neither the process of liquidation nor the person responsible as liquidator up to that point ought to be disturbed except where there are circumstances warranting the liquidator's removal. Furthermore, the right is open to a creditor of applying to the Court for a winding-up order.

A liquidator's main duties are the realization of assets at best advantage and the distribution of ultimate net proceeds in the proper order. If a liquidator is undertaking his duties with proper sense of responsibility, and professional men are assumed to do so, then surely the interests of creditors are as safe in the hands of a liquidator appointed by the members, as they would be in the hands of one appointed by the creditors. In any event, a liquidator is personally liable in cases of misfeasance and negligence.

Nevertheless, I feel there is justification where a meeting is held under Section 288 for a liquidator at subsequent stages of the liquidation to take representatives of the creditors into counsel. Thus I feel the section would be improved by providing for the appointment of a committee of inspection to act with him where creditors so desire.

Because liquidators may not always be appointed from the ranks of professional and other persons of the highest integrity and of sound financial status, I consider there would be an added safeguard for both members and creditors if liquidators were required to give a bond similar to that often required of trustees in other cases.

Yours faithfully,
DESMOND B. HIRSHFIELD, F.C.A.
London, WC1.

BIRMINGHAM AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

ANNUAL DINNER

Nearly 400 members and guests were present at the annual dinner of the Birmingham and District Society of Chartered Accountants held at *The Grand Hotel*, Birmingham, on Friday, February 22nd; Mr Douglas J. Hadley, F.C.A., President of the Society, was in the chair.

The guests, who were received by Mr Hadley and by Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, included The Lord Burnham, C.B., D.S.O., M.C., T.D., M.A., D.L.; The Lord Willoughby de Broke, M.C., A.F.C., J.P.; Alderman R. C. Yates, Lord Mayor of Birmingham; Dr H. Schofield, C.B.E., PH.D., B.SC.; and Messrs W. L. Barrows, F.C.A. (*President, Birmingham Chartered Accountant Students' Society*); H. Benoit (*Editor, 'Evening Despatch'*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); Harold Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); B. C. Britton (*Chairman, Warwickshire, Staffordshire and Worcestershire Branch, Royal Institution of Chartered Surveyors*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); R. Kynoch Clark, A.C.A. (*Official Receiver of Birmingham*); The Very Rev. Michael Clarke (*Provost of Birmingham*); Messrs Denis Clews, F.A.I. (*Chairman, Birmingham and West Midlands Branch, Chartered Auctioneers and Estate Agents Institute*).

Messrs N. J. Collier (*H.M. Principal Inspector of Taxes, Birmingham Head Office*); S. W. Cornwell, F.C.A. (*President, Bristol and West of England Society of Chartered Accountants*); Prof. Donald Cousins, B.COM., A.C.A. (*Professor of Accounting and Administration, University of Birmingham*); Major G. B. Cox, F.R.I.B.A. (*President, Birmingham and Five Counties Architectural Association*); Messrs G. D. F. Dillon, B.A., F.C.A. (*President, London and District Society of Chartered Accountants*); J. P. Eames, O.B.E., F.I.M.T.A., A.S.A.A. (*City Treasurer of Birmingham*); W. W. Fea, B.A., A.C.A. (*Chairman, Taxation and Research Committee of the*

Institute); Charles Fenby (*Editor, 'Birmingham Gazette'*); E. B. W. Fiddian, A.I.M.T.A. (*Chairman, Midland Branch, Institute of Municipal Treasurers and Accountants*); Coun. J. A. Gopsill, F.A.C.C.A. (*President, Birmingham and District Society of Certified and Corporate Accountants*).

Messrs W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); D. M. Green, F.C.I.S. (*President, Birmingham and District Branch, Chartered Institute of Secretaries*); W. H. Hancock, F.C.W.A. (*President, Birmingham and District Branch, Institute of Cost and Works Accountants*); K. G. M. Harding, B.A., F.C.A. (*President, Liverpool Society of Chartered Accountants*); E. Hemsoll (*Clerk to the Committee of the Society*); Cyril Highway (*President, Birmingham Law Society*); A. S. MacIver, M.C. (*Secretary, Institute of Chartered Accountants in England and Wales*); J. F. Milward (*Birmingham Stipendiary Magistrate*); J. J. Potter, F.S.A.A. (*President, Birmingham and District Society of Incorporated Accountants*); Coun. H. G. Pinner (*Mayor of Smethwick*).

Messrs J. M. Rae (*Hon. Secretary, Birmingham Chartered Accountants Students' Society*); H. J. Redfern, F.C.A. (*Hon. Secretary, Coventry Area Branch, Birmingham and District Society of Chartered Accountants*); W. Vaughan Reynolds (*Editor, 'The Birmingham Post'*); Harold E. Rice (*President, Birmingham Insurance Institute*); G. B. Robins, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); Paul E. Sandilands, Q.C., O.B.E., D.L. (*Recorder of Birmingham*); G. J. Sheddon, F.C.A. (*Chairman, Wolverhampton Branch, Birmingham and District Society of Chartered Accountants*); K. Milliken Smith (*Chairman, Birmingham Stock Exchange Committee*).

Sir Arthur Smout (*President, Birmingham Chamber of Commerce*); Messrs W. G. Taylor (*Chairman, Midland District Committee, Corporation of Insurance Brokers*); Sydney Vernon (*Pro-Chancellor, University of Birmingham*); Prof. Gilbert J. Walker, D.LITT., M.A. (*Dean, Faculty of Commerce, University of Birmingham*); Messrs M. Wheatley Jones, B.COM., F.C.A. (*President, Manchester Society of Chartered Accountants*); J. C. Montgomery Williams, F.C.A. (*President, South Wales and Monmouthshire Society of Chartered Accountants*); A. Wright (*President, Birmingham Branch of the Institute of Bankers*); D. D. W. Wynn-Williams (*Agent, Bank of England, Birmingham*).

The Tests of Greatness

Lord Burnham, giving the toast of 'The City of Birmingham', said there could be no more discouraging task for an after-dinner speaker than to have to propose the toast of a great city like Birmingham. All the familiar compliments had already been paid – often by masters of English prose. He continued:

> 'I am one of those who believe that the greatness of a city does not lie in its material prosperity. It does not lie in the outward and visible signs of municipal magnificence, in the comprehensiveness of its utilities or the scope of its public services. Nor does it lie so much in the vision and ability of those who govern its destinies as in the nature of the men and women who live there and the spirit which animates their daily round.

The Lord Mayor of Birmingham, replying to the toast, said he had been very proud to see how the people had respected the passing of a King whom everybody loved. But it was no use talking about a new Elizabethan era as though it were a matter of milk and honey. It meant hard work.

Lord Willoughby de Broke, proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said that in recent years he had of necessity become more and more involved in the world of accounts. He had now to consider the demands of his own household, to attempt to conduct a country estate and at the same time to be a company director. In the last activity, particularly, he had learnt to appreciate the work of a chartered accountant at its true worth.

Articled Clerks

Replying to the toast, Mr C. W. Boyce, C.B.E., F.C.A., President of the Institute, said it was gratifying to know that the prestige of the Institute stood so high in the estimation of the business community and the public generally.

He went on to say it was a matter for regret that the percentage of passes in the Intermediate examination in November was as low as 41. He wondered whether students fully realized the need for steady application to their studies from the time of beginning their articles until examination day.

In addition to the correspondence courses, the student societies were providing facilities through classes and lectures. He was not sure that full advantage was being taken of them. It had been reported to him by more than one student society that their committees felt concern because of the poor attendance at lectures, and he appealed to members in practice to give every encouragement to their articled clerks to attend lectures.

Valuation of Stock

During recent months, said Mr Boyce, many accountants had received letters from inspectors of taxes asking for information as to the precise way in which the value of stock had been estimated. The fact that such letters had been issued in many parts of the country appeared to indicate that instances had occurred in which the basis of valuation had not commended itself to the Inland Revenue and had raised the question as to auditors' duties and responsibilities regarding the verification of stock appearing in their clients' balance sheets.

In most industrial undertakings stock-in-trade was one of the most important items on the assets side and it was incumbent on an auditor to exercise all reasonable care and skill to satisfy himself that stock had been correctly ascertained and valued. It might be that some accountants, relying on the dictum of a Lord Justice of Appeal, regarded themselves as having little or no duty in relation to stock and had been satisfied with a certificate from the management. Such accountants should carefully consider whether this limitation of their duties satisfied the high standards expected of their profession.

Mr Boyce ended by congratulating the Birmingham Society on the appointment of one of its members, Mr W. W. Fea, B.A., A.C.A., as chairman of the Institute's Taxation and Research Committee. Since it was brought into being nine years ago the Committee had done work of inestimable value to the Institute and the accountancy profession as a whole. Mr Boyce also paid tribute to the work of Mr W. L. Barrows, F.C.A., as chairman of the Students' Society in Birmingham, and to that of Mr T. A. Hamilton Baynes, M.A., J.P., F.C.A., as a member of the Council, and to the officials and staff of the Institute.

The President, Mr Hadley, proposing the toast of 'The Guests' to which Dr H. Schofield replied, spoke of the wide area covered by the Birmingham and District Society, which included five counties and parts of Shropshire and Oxfordshire

TAXATION SILVER JUBILEE CONFERENCE

ATTRACTIVE PROGRAMME FOR ACCOUNTANTS

Scarborough, September 19th to 22nd, 1952

The Editor of *Taxation* announces that in response to many requests and as a result of the great success of the first *Taxation* conference held in Eastbourne last year, arrangements have been made to hold a conference at Scarborough this year, during the period Friday, September 19th until Monday, September 22nd, 1952, at which distinguished speakers will give addresses on various phases of the law and practice of taxation.

Organized by *Taxation*, and again under the chairmanship of Mr Ronald Staples, the conference will be open principally to members of the accountancy and legal professions and especially to those accountants interested in the subject of taxation in the industrial and commercial fields.

Preparations for the conference, including special attractions for the ladies, are well in hand, and those attending can be assured of a warm welcome to Scarborough.

Tentative Programme

The following tentative programme will give an idea of the events as established to date:

Friday afternoon, September 19th:

Short inaugural address by the Chairman followed by a civic welcome given by the Mayor of Scarborough.

Address by Mr J. S. Heaton, F.S.A.A., on 'Computation of Schedule D liabilities'.

Chairman: Mr C. Percy Barrowcliff, F.S.A.A.

Friday evening:

Cocktail party, to be given by the Editor, to which all members and their ladies will be invited.

Mock Appeal

Saturday morning, September 20th:

Mock Appeal. The subject of the appeal will be announced later.

Chairman of Commissioners: Mr W. S. Carrington, F.C.A.

Commissioners: Mr J. T. Patterson, F.C.A., F.S.A.A.; Mr J. C. Latham, D.L., F.S.A.A., F.A.C.C.A., F.C.I.S.

Appellant: Mr T. S. Martin.

Counsel for Appellant: Mr N. E. Mustoe, M.A., Barrister-at-Law.

Inspector: Mr R. A. Snook, H.M. Senior Principal Inspector of Taxes.

Accountant: Mr Charles S. Stephens, F.C.A.

For the ladies:

A coach tour of the famous Yorkshire moors and beauty spots around Scarborough.

Saturday afternoon:

Address by Mr Frank Bower, C.B.E., M.A., on 'Problems arising out of the Finance Act, 1952'.

Chairman: Mr Robert G. Simpson, M.C., C.A.

Back Duty Settlements

Address by Mr Ronald Staples on 'Back duty settlements'.

Chairman: Sir John Erskine, C.B.E., D.L., J.P.

Saturday evening:

Civic reception and dance to be given by the Mayor and Mayoress of Scarborough.

Sunday morning, September 21st:

A church service for conference members and their ladies.

Sunday afternoon:

A special eighteen-hole medal-round golf competition for the *Taxation* challenge cup.

Monday morning, September 22nd:

Address by Mr C. N. Beattie, LL.B., Barrister-at-Law, on 'The accountant's approach to estate duty'.

Address by Mr T. L. A. Graham, A.S.A.A., on 'Some Revenue concessions'.

Chairman: Mr S. W. Cornwell, F.C.A.

For the ladies:

The management of Messrs Marshall & Snelgrove at Scarborough have kindly consented to stage a special mannequin parade in their restaurant for the entertainment of ladies attending the conference.

Special facilities will be granted to all members of the conference by the Borough of Scarborough.

Nominal Contribution

At the suggestion of a number of practitioners who attended the Eastbourne conference last year, it is proposed to ask those who desire to attend the Scarborough conference to make a nominal contribution of one guinea a head towards the conference expenses. *No further charge whatsoever will be made and all social functions including tours etc. will be free.* Those who attend, therefore, will be required to pay only for accommodation and transit.

Travelling Facilities

British Railways have promised to co-operate in running special coaches or a special train from London if numbers are sufficient. It will be appreciated that if a special train is run, it will be non-stop, and restaurant facilities can be provided. It would help the organizers if those wishing to take advantage of this special facility would give an indication of their willingness to travel from London on Thursday afternoon, September 18th, 1952, and to return from Scarborough on Monday, September 22nd, 1952.

Those wishing to be present are advised to make early application to Mr H. P. Kennett, Conference Secretary, 98 Park Street, London, W1, stating their requirements for hotel accommodation etc.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Results of Examinations held in December 1951

FINAL EXAMINATION

SECTIONS I AND II

First Place, Association Medal and Prize: Gillan, D. H., Oldham.

Second Place: Barnes, E. W., Bristol.

Third Place: Dunmall, K. J., London.

Fourth Place: Holden, S., Westcliff-on-Sea.

Full List of Names of Successful Candidates

(in alphabetical order)

El Gazzar, M. M. E., Handsworth.
Eyers, J. B., Bristol.
Fallman, D. M., London.
Farr, K. H., Reading.
Jones, H., Bristol.
Kay, G. T., Blyth.
Maclachlan, F. R., Dublin.
McEvoy, J., Dublin.
Melia, J., Leeds.
Nelson, A. W., London.
Phillingham, L. H., Wallasey.
Tyldesley, W. R., Rothwell, near Kettering.
Yates, F., Gateshead-on-Tyne.

47 candidates failed to satisfy the examiners, but of those who failed the following were successful in Section I only:

Bedford, J. C., Bristol.
Binns, N. D., West Ardsley, near Wakefield.
Booy, B. A. W., Cheltenham.
Brocklehurst, A., Salford.
Cockings, H. C., Windsor.
Coghlan, J., London.
Creed, A. H., Bexley.
Ellis, B., London.
Graham, S., Preston.
Helks, J., Northampton.
King, N. L., Hatch End, Middlesex.
Larner, R. J., London.
Letts, H. R., Kingston-on-Thames.
Lizius, J. D., Feltham.
Lodge, W. A., Little Smeaton, near Pontefract.
Naylor, G. S., London.
O'Donnell, C. H., Sheffield.
Owen, S., Neath, Glam.
Rainford, G., Preston.
Rice, E. R., London.
Ringer, A. A., Wisbech.
Rosborough, R. A., Belfast.
Salisbury, J. A., Chesterfield.
Smith, R. S., North Weald.
Taylor, K. C., Wembley.

FINAL EXAMINATION

SECTION I ONLY

First Place and Prize: Davis, F. J., London.

Second Place: Richardson, K. G., Cottingham.

Third Place: Smith, A. M., Leven.

Fourth Place: Corner, J. A., Wallington; Heatley, R. H., London; Petley, W. G., London.

(in alphabetical order)

Abrahams, A. N., London.
Ainsworth, A., Tyldesley, near Manchester.
Allery, S. J., London.
Allison, E., West Hartlepool.
Arthur, G., Cardiff.
Ashley, N. E., Clevedon.
Atkins, F., Melton Mowbray, Leics.
Atkinson, G. W., Leicester.
Baguley, K., Hale, near Altrincham.
Baird, A. J., Welling.
Baker, E. J., Coventry.
Barker, P., Wistow, near Selby.
Barklem, J. W., London.
Barnes, C. B., Bristol.
Barnsley, W., Bradford.
Barr, G. D., Haversham.
Barrow, J. E., Ilford.
Batchelor, G. H., Eastleigh.
Batey, K., Gateshead-on-Tyne.
Baxter, D., Denny.
Bazar, A., Cheltenham.
Beazley, R. W., London.
Bell, D. P., Elstree.
Bell, E. R., Morpeth.
Bellworthy, A. S., Frome.
Bennett, A., Chadderton, near Oldham.
Bickell, J. A., Twickenham.
Bowles, S. T., Norwich.
Brace, F. G., Holmes Chapel, Cheshire.
Bracey, E. W., Baldock.
Bradley, M. A. O., New Tupton.
Brailey, R. E., London.
Brenchley, B., London.
Breskal, R., London.
Breet, D. P., Romford.
Bridgman, C., London.
Brockman, C. F. H., London.
Brooks, D. J. M., Bristol.
Brooks, D. S., Newport, Mon.
Brooks, L., Tunbridge Wells.
Brown, H. D., London.
Buckley, D. F., Cork.
Buntin, R. A., Alloa.
Burrage, R. H., London.
Burton, J. F., Plymouth.
Bury, R. J., Barry.
Caddy, W. B., London.
Cakebread, R. G., Coventry.
Campbell, A. H., London.
Chick, E. W., London.
Clegg, E., Blackburn.
Coates, M. W. J., Bristol.
Cockbill, K. S., Coventry.
Colley, D. W., Portsmouth.
Collie, I. J. L., Edinburgh.
Coombes, D. E., Newton Abbott.
Coombs, E. E., Bromley.
Coysh, W. E., Barry.
Cozens, E. J., Canterbury.
Crowdson, F. A., Banbury.
Cunningham, D., Westcliff-on-Sea.
Davidson, W. R., Dundee.
Dearn, F. A., Birmingham.
Dimmock, L. J., Harrow.
Donnelly, M. J., Glounthaune.
Ead, N. J., London.
Eames, L. J., Richmond.
Eastabrook, I. M., Manchester.
Eaton, E., London.
Elliott, J. S., London.
Emery, D. R., Worcester Park.
English, T. A., Hexham.
Estall, J. W. B., East Barnet.
Evans, J., London.
Farey, A. L., London.
Farrar, J., Alderley Edge, Cheshire.
Finch, N., Manchester.
Ford, K. G., Birmingham.
Forster, G. F., Oxford.
Freedman, A. I., London.
Fullick, D. R., Woking.
Gard, W. H., Lydiate, near Liverpool.
Gardner, A. E., Pontefract.
Gathercole, D. K. E., Cambridge.
Gedalla, R., London.
Giddings, R. H., Kendal.
Gilbert, D. S., Goring-by-Sea.
Gillah, R. E., London.
Grayson, W., Middleton, near Manchester.
Green, G. A., London.
Greenshields, E. W., Glasgow.
Gregory, J., Aberdeen.
Hall, E. A. F., London.
Hall, S. D., Harrow.
Hammond, B., Manchester.
Handley, H. L., London.
Hansford, P. D., Hampton.
Hardie, R. M., Plymouth.
Harper, D. F., Norwich.
Haste, B. G. S., Canterbury.
Hawkes, R. K. E., Harrow Weald.
Head, W. C., Romford.
Hedley, T. S., Kingston-on-Thames.
Hellewell, R., Bradford.
Hilliard, J. E., Hitchin.
Hines, A. R., Harrogate.

Hodge, G. B., New Malden.
Hodges, C. J., Bristol.
Hodges, J. V., London.
Home, S., Cramlington.
House, C. W. H., London.
Howard, R. L., Littlehampton.
Howe, E., Newcastle-on-Tyne.
Hughes, J. A. C., London.
Hughes, S. H., London.
Humphreys, P., Liverpool.
Hunter, J., Rochdale.
Hunter, K., Newcastle-on-Tyne.

Jayson, R. S., London.
Jones, H. E., Lymm, near Warrington.
Jones, P. V., Blackpool.

Kay, A. E., London.
Keates, S., London.
Kemp, W. E., Plymouth.
Kempton, H. W., Birmingham.
Kennedy, T. E., Gilford.
Kentish, E., Kingston-on-Thames.
King, W. R., Newcastle-on-Tyne.
Knight, A. W., London.

Langley, M. W., Bexleyheath.
Lawton, F. W. A., Colchester.
Layzell, E. A., London.
Lee, C. J., Dublin.
Leeson, E. J., Leicester.
Leonard, S. C., London.
Levy, L., London.
Lewis, L. E. A., Watnall.
Lockett, F., Romiley.
Long, J. A., Glasgow.
Long, T. C., Charleville, Co. Limerick.
Longair, A., Dundee.
Loughton, A., Selby.

McGuire, K. G., London.
McKenzie, T. M., Edinburgh.
McMullan, W. B., Londonderry.
McPhee, J., Cumbernauld.
Macdonald, D., Bury.
Marsh, D., Oldham.
Marshall, W. E., Welling.
Mason, J., Blackpool.
Mason, J. B., Walsall.

Massbery, H. C., Crayford.
Matcham, W. J., North Harrow.
May, L., Liverpool.
Meggs, B. C., Uddingston.
Metge, P. E., Wirral.
Middleton, S. W., Birmingham.
Miller, A. S., Welling.
Mitchell, E. S., Keighley.
Moon, E. O., Plymouth.
Moore, W. J., Edgware.
Morison, G. W., Bournemouth.
Morris, A. W., Kettering.
Munton, R., Normanton.
Murphy, P. J., Waterford.

New, G. R., Cheam.

Offord, R. F., London.
Oxborne, D. G., Barton Gate, Burton-on-Trent.
Outerson, G. J., Edinburgh.
Owen, A. C., Madley, near Wellington.
Owen, E. D., Birmingham.
Oxley, D., Grimsby.

Palmer, Miss R. J., Yeovil.
Pattison, A. R., Clayton, near Bradford.
Peak, A. G., Chadwell Heath.
Perez, S., Edgware.
Pettitt, R. S., South Croydon.
Pitt, D. G., West Wickham.
Pocock, P. R., Biddestone, near Chippenham.
Potter, S., Leeds.
Pounder, J. D., London.
Price, J., Poulton-le-Fylde.
Pulling, D. H., Harrow.

Rainbow, A. R., Hull.
Randall, R. D., Sanderstead.
Rice, E., Crossgar.
Richardson, B., Hull.
Richardson, V. L., Brighton.
Rischmiller, J. H., Audenshawe, near Manchester.
Roach, A. E., Salisbury.
Rosen, A. S., London.
Rowbottom, J., Oldham.
Rowe, B. A. R., Southampton.

Rowe, E., New Ross.
Sapsford, D. H. G., Ilford.
Scorer, M., Hetton-le-Hole.
Seaman, E. W., Ilford.
Shearman, N. F., London.
Shearwood, J. R., Southall.
Shrubsole, W. S., Guildford.
Simpson, J. W., Oldbury.
Slack, G., Stalybridge.
Small, W. T., Dundee.
Smethers, G. F., Woodford Green.
Smith, Miss E. M., Parkstone.
Smith, H., Warrington.
Smith, J. A., Bramley, Leeds.
Smith, P. J., London.
Smith, S., Loughborough.
Snook, H. G. A., Wormley.
Sparling, N. W. N., Poole.
Speed, C., Lincoln.
Stephens, D. A., Woodford Green.
Stephenson, P. F., Dublin.
Stevens, E. F., London.
Stewart, J., Tewkesbury.
Stradling, E. P., Porthcawl.
Sunley, J. W., Manchester.
Tait, H., Newcastle-on-Tyne.
Taylor, G. H., Carshalton.
Thomas, E. G., London.
Thompson, C. A., Chesterfield.
Thorpe, A., Sheffield.
Tyrrell, P. W., Luton.

Ullmer, A., Edgware.

Varrie, I. A., Lockerbie.

Wakefield, D. W., Taunton.
Wakeham, J., Birmingham.
Wallington, W. F., Upminster.
Watterson, J. S., Burnham-on-Sea.
Weaver, H. E., London.
Webb, M. E., Bristol.
Wells, R. F., Christchurch.
Whight, A. C. P., London.
Wilford, J. C., Newcastle-on-Tyne.
Williams, C. A., Brighton.
Williams, S., Wallasey.
Wood, G. P., Glasgow.
Woodley, D. E., Sunbury-on-Thames.

227 Candidates failed

FINAL EXAMINATION

SECTION II ONLY

First Place and Prize: Smith, N. H., London.
Second Place: Campbell, W. A., Glasgow; Smith, G. W., Gosforth.
Third Place: Gulliver, C. S., Northampton.
Fourth Place: Menday, R. L., Southend-on-Sea.

(in alphabetical order)

Abrey, N. H., Haywards Heath.
Aina, B. O., London.
Albery, J. W., Croydon.
Anderson, D., Newcastle-on-Tyne.
Andrew, M. V., Norwich.
Arnold, P. E., London.
Ashton, C., Disley, Cheshire.
Ashwell, W., Bradford.

Baker, G. E., London.
Balfour, J. M., Ballieston, near Glasgow.
Banks, E. C., Bradford.
Bannister, G. S. W., Belvedere.
Barker, E. F., Bristol.
Barker, P. F., London.
Barnes, F. W., Sheerness.
Barrett, R. D., Calne.
Barton, D., Manchester.
Barton, J. R., Abridge.
Beckett, S., Farnworth, near Bolton.
Blackburn, J. K., Burnley.
Blake, R. F., Worcester Park.
Bode, F. J., Leek.
Bourner, A. J., Eastbourne.
Bradford, W., Droylsden, near Manchester.
Bradish, E. H., London.
Brown, G. A., Aberdeen.

Bullen, W. R., Witton Gilbert, Co. Durham.
Bulman, A., Newcastle-on-Tyne.
Burdett, D. T., Banbury.
Bush, P. B., Exeter.
Butler, R. J., Hoddesdon.
Byers, T. R., Glasgow.

Canavan, P., Galway.
Candlin, H. C., Guildford.
Carr, E. C., South Harrow.
Carter, J. L., Birmingham.
Castle, W. A., Oxford.
Chandler, D. L., Portsmouth.
Chisholme, W. O., Hawick.
Cooper, D. G., Doncaster.
Cooper, J., Colwyn Bay.
Cooper, Miss L. A., Harrow Weald.
Critchley, G. T., Sutton, near Doncaster.

Deering, F. J. W., London.
Dempster, N. E., London.
Douglas, J. E., Dumbarton.
Dunworth, A. V., Hayes.
Dyer, R. A., London.

Elkin, J. C., Croydon.
Emmett, L., Stockport.
Evans, I. J., Bromsgrove.

Everest, G. F., London.
Ewin, E. V., London.

Falconer, S., Swansea.
Farmer, N. B. C., Ruislip.
Fletcher, C., Oldham.
Foster, R. H., Burton-on-Trent.
Fox, A. A., Hoyland, near Barnsley.

Garland, P. G., Dublin.
Gask, L. A., Birmingham.
Gaze, G. D., London.
Gibbs, N. C. W., London.
Glattbach, V. I., Sunderland.
Glen, G. McG., Glasgow.
Godfrey, J. L., Edinburgh.
Goodwin, R., Saffron Walden.
Grierson, T., Ammanford.
Griffiths, B. M., Bridgend, Glam.

Hales, S. J., Shrewsbury.
Harding, R., London.
Harris, L. R., Northampton.
Harvey, J. McD., Glasgow.
Hassan, E. S. V., London.
Hayden, P., Waterford.
Haynes, E. G., Richmond.
Hayes, S. J. C., London.

Hayter, R. F., Ilford.
Hempson, H. R., Wisbech St. Mary.
Hennessey, B. F. E., Sidcup.
Henry, W. McC., Liverpool.
Heron, C. H., Mitcham.
Hilliard, P. G., Dublin
Hillman, I., London.
Ireson, D. B., Luton.
Israel, C. I., London.
Jackson, R., Walsall.
James, G. H., Darvel.
Johnson, W. D., Hexham.
Johnston, D., Stretford.
Jones, D., Manchester.
Kenyon, T., Liverpool.
Lee, A. G., Southampton.
Lindsay, A. A., Ayr.
Lister, A., Laisley.
Littlemore, E. H., Winsford, Cheshire.
Luker, N. L., Swindon.
McCulloch, G., Dundee.
McEvoy, J. J., Dublin.
Macintyre, D. J., Glasgow.
Macrae, C., Glasgow.
Madeley, G. L., Kingswinford.
Marshall, R. T., London.
Massie, E. S., Aberdeen.
Matthewson, J., Belfast.
Maynard, G. F., London.
Mayo, H. E., Newent.
Meagher, E. M., Dublin.
Meehan, M., Tralee.
Morgan, J. R., Slough.
Morris, B. J., Chatham.
Miles, D., London.
Mills, B. H., Bristol.
Newton, R. A. G., Malvern.
Nightingale, J. H., Birmingham.
O'Connor, D. DeC., Lagos, Nigeria.
Osborne, C. H., Bromley.
Paintin, G. W., Nottingham.
Parker, A. W., London.
Payne, L. S., London.
Penfound, D. S., Hayes.
Pennock, J. T., Glasgow.
Perry, C. A., London.
Phillimore, J. A., Carshalton.
Philpott, B. G., Cardiff.
Pickup, R. A., Accrington.
Pidgeon, R. S., London.
Port, R. P. J., Lagos, Nigeria.
Pountney, H. V., London.
Proudlock, E. R., Leeds.
Puleston, D. F., Gillingham.
Rees, R., Haverfordwest.
Reid, J., Greenock.
Roberts, D. W., Bexleyheath.
Rocke, W., Cardiff.
Saville, D., London.
Shaw, R., Chadderton, near Oldham.
Sheppard, S., Swansea.
Simmonite, J., Nottingham.
Smart, P. J., Westerham.
Smith, S. M., Cambridge.
Smith, W. H., Birmingham.
Staines, J., Enfield Highway.
Stannard, S. L., West Wickham.
Stephens, W. L., Sale.
Stevenson, L. A., Southall.
Stokes, N. A., Stafford.
Stokes, R. W., Stanmore.
Stoll, L., London.
Stott, E. A., West Bromwich.
Stovold, H. L., Woking.
Strange, K. N., Swansea.
Supersad, S. M., Leeds.
Tabbener, Miss E., Birmingham.
Terry, K. A., Norwich.
Thomas, S. C., Bristol.
Thomson, R., Edinburgh.
Thomson, S., Glasgow.
Thornton, E., Oldham.
Thurston, Miss J. E., Croydon.
Timberlake, R. W., Luton.
Tongue, C. N., Solihull.
Turnbull, I. S., Nottingham.
Tye, W. J., Sawbridgeworth.
Wadsworth, S., Middleton Junction, near Manchester.
Wakeford, B. B., Boston.
Wakeling, S. T., Leigh-on-Sea.
Walker, P. C., Leamington Spa.
Wallbank, A. H., Ruislip.
Walton, H. G., Purley.
Warrilow, G. A., Birmingham.
Watkiss, K. H., Walsall.
Werba, H., Cambridge.
Westgarth, H. L., Harston.
Wetherall, C. E., Ashford.
Why, A. G., Luton.
Wild, D. A., Manchester.
Williams, R. J., Ormskirk.
Williamson, J. T. H., Carshalton.
Wright, J. H., Lancaster.
Young, R. W., Hanworth.
Youngs, R. M., Oxford.

239 Candidates failed

Summary of Results

Candidates	Preliminary	Intermediate	Final: Sections I & II	Final: Section I only	Final: Section II only	Corporation Final	Total
Passed with Honours ..	3	4	4	6	5	—	22
Passed ..	26	418	13	238	181	—	876
Failed	9	445	47	227	239	1	968
Total sat ..	38	867	64	471	425	1	1,866

N.B. – Of the Candidates who sat for the Final, Sections I and II, 25 candidates satisfied the examiners in Section I only.

NOTES AND NOTICES

Personal

MR AUSTEN G. WALLIS, F.C.A., and Mr JOHN FORSYTH F.C.A., announce that their partnership carried on under the name of FRENCH, WALLIS & FORSYTH, at Newcastle-on-Tyne, Sunderland and North Shields, has been dissolved by mutual agreement. Mr WALLIS is continuing to practise at Newcastle and North Shields under the name of FRENCH, WALLIS & Co, Chartered Accountants, and has taken into partnership Mr ERIC W. SPRUCE, A.C.A., who served his articles with Mr WALLIS and has been associated with the firm for several years. Mr FORSYTH is continuing to practise at Sunderland under the name of JOHN FORSYTH & Co, Chartered Accountants.

MESSRS OLDHAM, HOLLAND, FRANK & Co, of Old Bank House, 190 High Street, Lewes, announce that as from January 1st, 1952, they have admitted to partnership Mr D. H. WILLIAMS, A.C.A., who has served articles with them, and who has been for some years a senior member of their staff.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co (Chilean firm), of Calle Bandera 162, Santiago de Chile, announce that Mr THOMAS JAMES FOSTER STUART, C.A., who has for many years been a member of the staff of their associated office in Buenos Aires, has been admitted to partnership as from March 1st, 1952.

Chartered Accountant Signatories to Proclamation

It was interesting to note among the signatories to the Proclamation issued as a supplement to *The London Gazette* extraordinary of Wednesday, Febru-

ary 6th, 1952, proclaiming the accession of Her Majesty Queen Elizabeth II, the names of three members of The Institute of Chartered Accountants in England and Wales. Besides that of The Lord De L'Isle and Dudley, V.C., M.A., A.C.A., there appear the signatures of Sir Frederick Rowland, Bt., F.C.A., an alderman and former Lord Mayor of London, and Mr S. Harold Gillett, M.C., F.C.A., who is also an alderman of the City of London.

In Parliament

FINANCE ACT, 1951: SECTION 36

Mr MAUDLING asked the Chancellor of the Exchequer whether, in framing his Budget proposals, he will bear in mind the arguments for repealing Section 36 of the Finance Act, 1951, which impedes the activities of British businesses overseas.

Mr BOYD-CARPENTER: This section will with others be under review in connexion with the next Finance Bill.

Hansard, Feb. 21st, 1952. Written Answers, Col. 49.

EXCESS PROFITS TAX

Mr MAUDLING asked the Chancellor of the Exchequer whether, in framing his proposed legislation on excess profits, he will give special consideration to the exceptional nature and purpose of payments received by film-producing companies from the British Film Production Fund Ltd, and especially to the fact that this fund was created so as to make it possible for efficient film production to become self-supporting.

Mr BOYD-CARPENTER: I must ask my hon. Friend to await the detailed proposals relating to the excess profits tax which will appear in the Finance Bill.

Hansard, Feb. 21st, 1952. Written Answers, Col. 49.

TREASURY DEPOSIT RECEIPTS

Mr ERROLL asked the Chancellor of the Exchequer whether, in view of the considerable reduction in the amount of Treasury deposit receipts outstanding in the hands of the banks, he will state his policy with regard to the continued use of this monetary instrument.

Mr R. A. BUTLER: The receipts maturing in the course of next week will not be replaced and consequently no receipts will be outstanding by the end of the week; but the arrangements between the Treasury and the bankers concerned will not be terminated. Although the inflow of revenue at this time of the year and other factors will result in the suspension of the use of this form of borrowing, the scheme retains, in my opinion, its usefulness. If and when the need arises it may well be brought into operation again.

Hansard, Feb. 22nd, 1952. Written Answers, Col. 71.

Statistical Techniques for Accountancy

NEW JOINT COMMITTEE FORMED

The Council of the Royal Statistical Society has accepted an invitation from the Council of the Society of Incorporated Accountants to take part in the study of the statistical techniques applicable to accounting data. A joint committee has been set up to investigate the subject under the chairmanship of Dr D. Heron, a past-president of the Royal Statistical Society. In addition to Dr Heron, Mr J. R. N. Stone, C.B.E., and Mr A. W. Swan are serving as representatives of the Royal Statistical Society. The representatives of the Society of Incorporated Accountants on the committee are: Mr Bertram Nelson, J.P., F.S.A.A., Mr F. Sewell Bray, F.C.A., F.S.A.A., and Mr L. C. Hawkins, F.S.A.A. Mr J. D. Nightingirl, A.S.A.A., is acting as secretary to the committee. Mr F. A. A. Menzler, C.B.E., President of the Institute of Actuaries, has also consented to serve on the committee.

Association of University Teachers of Accounting

'From every point of view, it is extremely desirable that the discussion of accounting theory should flourish. Ultimately, such speculations will be useful to professional life, besides enriching our academic studies. But somehow our work is not yet very impressive. Indeed, much of it seems hardly to merit the name 'research'. That word suggests – to my mind at least – something of rare quality and originality. . . .

'The fundamental issues of accounting (e.g. theories of capital and revenue) have still to be explored, but only the most brilliant and ambitious student has any chance of doing useful work here.

'Does this mean that we should discourage the would-be researcher? To some extent, yes; a continuation of the present flow of third-rate output can lead only to the discredit of accounting research. Where an inquiring mind refuses to be discouraged, perhaps the best route for it to follow is one in which accounting knowledge can throw light on another subject. There is much to be said for winning one's spurs in a field whose standards have long been regarded as rigorous. . . .

'Research in economic history offers great scope for accounting methods. Some aspects of national statistics may well do likewise. Detailed studies of the law's inter-relations with accounting should also be fruitful. In short, our best plan may for the nonce be to treat accounting as a tool rather than an end.'

This warning note on the pronounced increase in writing on accounting research is sounded by Professor W. T. Baxter, B.COM., C.A., in his chairman's foreword to the fourth issue of the news-letter recently published by the Association of University Teachers of Accounting.

Among the contents of the news-letter is a list of members of the Association; notes from university departments of accounting, including paragraphs on company law revision in New Zealand, and on the universities and the accounting profession in South Africa. Also in this issue is the text of a memorandum to the Royal Commission on the Taxation of Profits and Income by a committee of the Association.

The next annual conference of A.U.T.A. is to be held at Bristol during the Easter vacation 1952; visitors from overseas will be welcome.

London and District Society of Chartered Accountants

A meeting of the London and District Society of Chartered Accountants will be held on Tuesday, March 11th, at 6 p.m. in the Oak Hall of the Institute, when the final lecture in the series on prospectuses will be given by Mr Lewis G. Whyte, F.F.A. The title of the address will be 'The institutional investor's approach to a prospectus'.

LUNCHEON MEETING

A luncheon will be held on Wednesday, March 26th at the Connaught Rooms, Great Queen Street, Kingsway, WC2, at 12.45 p.m. for 1 p.m., and will be followed by an address by Sir John H. E. Woods, G.C.B., M.V.O., entitled 'Accountancy from the outside by an outsider'.

Members may invite guests and tickets at 15*s* 6*d* each (including gratuities but exclusive of wines etc.) will be issued in order of application. Applications, accompanied by the necessary remittance, should be made to the Hon. Secretary of the Society, Leith House, 47 Gresham Street, EC2, by March 17th.

The Institute of Cost and Works Accountants

SHEFFIELD AND DISTRICT BRANCH

The annual dinner of the Sheffield and District Branch of The Institute of Cost and Works Accountants was held at *The Grand Hotel*, Sheffield, on February 22nd, with Mr R. G. Ward, F.C.W.A., President of the Branch, in the chair.

Proposing the toast of 'The City and Trade of Sheffield', Mr W. A. Lambert, President of the Sheffield and District Incorporated Law Society, spoke highly of the City amenities and the name of Sheffield steels throughout the world. Alderman T. W. Bridgland, J.P., Lord Mayor of Sheffield, and Mr W. H. Higginbotham, F.S.A.A., F.C.W.A., responded.

The toast of 'The Institute of Cost and Works Accountants' was proposed by Sir Ronald W. Mathews, D.L., J.P., and in his response, Mr A. W. Muse, F.C.W.A., F.A.C.C.A., President of the Institute, spoke of the new management accounting qualification on which the Institute is at present working, saying that the qualification would be open, chiefly by examination, to members of other professional bodies.

Mr W. C. Garrison, F.C.W.A., Past-President of the Sheffield and District Branch, proposed the toast of 'Our Guests', Mr F. K. Gardiner, J.P., Editor of the *Sheffield Telegraph*, responding.

A toast to the President of the Sheffield and District Branch was proposed by Mr S. C. Tyrell, F.C.W.A., F.I.I.A.

Southampton and District Chartered Accountants Students' Society

SECOND ANNUAL DINNER

The second annual dinner of the Southampton and District Chartered Accountants Students' Society was held at *The Polygon Hotel*, Southampton, last Saturday, with Mr H. A. H. Swayne, F.C.A., presiding.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales and the Southampton Students' Society', the Hon. Ewen E. S. Montagu, C.B.E., Q.C., Recorder of Southampton, stressed the importance of wider education for those entering the profession and congratulated the Society on its work in this connexion.

Mr A. Jolly, J.P., F.C.A., President of the South Eastern Society of Chartered Accountants, responded on behalf of the Institute and Mr A. S. Watson, A.C.A., A.S.A.A., supported the response on behalf of the Students' Society.

The toast of 'Our Guests' was proposed by Mr J. P. Miln, a member of the Students' Society Committee, and Mr Roger Brooks, solicitor, replied.

Royal Statistical Society

FRANCES WOOD MEMORIAL PRIZE

The Frances Wood Memorial Prize, value £30, which was last awarded in 1949, has been offered for competition again this year by the Council of the Royal Statistical Society. The prize is awarded for the best investigation, on statistical lines, of any problem bearing directly or indirectly upon the economic and social conditions of the people and might, for example, concern housing, food production and distribution, health and nutrition, conditions of work, output, incomes and expenditure, education or old age. Treatment of the choice of subject within the stated field must be mainly statistical and competitors must be under the age of 30 on January 1st, 1952; they need not, however, be Fellows of the Society.

Entries should be sent not later than December 31st, 1952, to the Honorary Secretaries of the Royal Statistical Society, 4 Portugal Street, London, WC2, from whom further information may be obtained.

Practice Arbitration

A practice arbitration has been arranged between the Institute of Arbitrators and the Chartered Institute of Secretaries, and an invitation to attend is extended to accountants and articled clerks. The meeting is being held at 6 p.m. on Thursday, March 20th, in the Hall of the Chartered Insurance Institute,

20 Aldermanbury, EC2. No tickets are required and no charge will be made.

The arbitrator will be Mr J. R. W. Alexander, M.A., LL.B., Barrister-at-Law, who is President of the Chartered Institute of Secretaries and Vice-President of the Institute of Arbitrators.

Chartered Accountants' Golfing Society

PROGRAMME FOR 1952

The following programme of matches and meetings during 1952 has been arranged, and full details will be sent to members in due course:

April 24th: 'Wood Cup'. – Joint meeting with the Scottish Chartered Accountants in London; course not yet fixed.

May 8th: Annual Meeting to be held at New Zealand Golf Club.

June 6th: Summer Meeting to be held at Sunningdale Golf Club.

June 7th: Match against the Solicitors' Golfing Society to be held at Sunningdale Golf Club.

June 14th: Match against the Bar Golfing Society to be held at Woking Golf Club.

Oct. 11th–12th: Autumn Meeting to be held at Burnham and Berrow Golf Club.

The Hon. Secretary and Treasurer is Mr Donald V. House, F.C.A., 3 Lombard Street, London, EC3. Telephone: Mansion House 9791.

Recent Publications

THE PRINCIPLES OF INCOME TAX AND PROFITS TAX. Second Supplement to Fourteenth Edition, by E. Miles Taylor, F.C.A., F.S.A.A. 12 pp. 8½×5½. 1s net. Textbooks Ltd, London.

JORDANS' MODERN BOOK-KEEPING, Part I. Third Edition, by Frank H. Jones, F.A.C.C.A., A.C.I.S. vii+282 pp. 7½×5. 7s 6d net. Jordan & Sons Ltd, London.

KEY TO JORDANS' MODERN BOOK-KEEPING, Part I. Third Edition, by Frank H. Jones, F.A.C.C.A., A.C.I.S. v+228 pp. 7½×5. 21s net. Jordan & Sons Ltd, London.

COMPANY MEETINGS, by W. F. Talbot, F.C.I.S., F.T.I.I. xii+179 pp. 9×5½. 22s 6d net. Stevens & Sons Ltd, London.

ACCOUNTANCY RATIOS IN THEORY AND PRACTICE, by B. B. PARKINSON, M.SC.(ECON.), B.COM.(LOND.), A.C.A. 112 pp. 9×5½. 15s net. Gee & Co (Publishers) Ltd, London.

ECONOMICS OF INDUSTRIAL ORGANIZATION, by A. Beacham, M.A., PH.D. x+189 pp. 9×5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

KONSTAM'S INCOME TAX. Eleventh Edition, Release No. 7. Stevens & Sons Ltd, London, and Sweet & Maxwell Ltd, London.

SIMON'S INCOME TAX, new pages for service volume; new pages for volume 4; new pages for volume 5, with tables of statutes and cases, also index. Issue No. 13. Butterworth & Co (Publishers) Ltd, London.

COMMERCIAL AGREEMENTS, by Glyn Picton. 23 pp. 8½×5½. 3s 6d net. Bowes & Bowes, Cambridge.

TAXATION IN CANADA, by J. Harvey Perry. xiii+409 pp. 9½ × 6. 45s net. Toronto University Press (London: Geoffrey Cumberlege).

Our Contemporaries

THE CANADIAN CHARTERED ACCOUNTANT. (Ottawa.) (January.) 'Presentation of Financial Information', by F. S. Capon, C.A.

ACCOUNTANCY. (February.) 'Successions'.

THE ACCOUNTANTS' JOURNAL. (Wellington.) (December.) 'Uniform Cost Accounting', by F. F. Clarke, A.R.A.N.Z.

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (January.)

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (February.)

THE WOMAN C.P.A. (New York.) (December.) 'A Comparison of Income Taxes in Great Britain and the United States', by Elinor Hill, C.P.A.

Other Publications Received

BULLETIN FOR INTERNATIONAL FISCAL DOCUMENTATION. (Amsterdam.)

INTERNE BEDRIJFS ORGANISATIE. (Amsterdam.) (January.)

JOURNAL OF THE ROYAL SOCIETY OF ARTS. (February.)

MONTHLY REVIEW OF THE BANK OF NOVA SCOTIA. (Toronto.) (December–January.)

THE BUILDING SOCIETIES' GAZETTE. (February.)

THE BANKER. (February.)

THE SECRETARY. (February.)

JOURNAL OF THE SAVINGS BANKS INSTITUTE. (January.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF MARCH 3RD, 1877

A letter entitled:

Accounts in an Intelligible Form

SIR, – While agreeing with your correspondent 'G. H.' that it is the duty of auditors to see that the accounts of public companies should be placed before the shareholders in an intelligible form, I would beg to point out to him that his form of profit and loss account is a totally incorrect one, as he places profits on the debit side and losses on the credit side, a mistake which a mere tyro in book-keeping would surely avoid.

Yours, etc.,

N.

The Accountant

ESTABLISHED 1874

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CONTENTS

NO PAR VALUE SHARES REJECTED

THE attempt to permit the introduction of company shares having no par value has failed. The private member's Companies Bill which sought to alter the law for this purpose was unable to obtain a Second Reading in the House of Commons.

SIR JOHN BARLOW, who sponsored the Bill, said that things had changed since 1945 when the Cohen Committee reported that there was little public demand for – and considerable opposition to – shares of no par value. The fall in the value of money had increased the anomalies arising from nominal values which had little relation to reality and made it difficult to calculate dividend yields.

At the close of a not very edifying debate, the Parliamentary Secretary to the Board of Trade, MR HENRY STRAUSS, distinguished between the principle which the Bill represented and the Bill's drafting. The principle of no par value shares had a great deal to be said for it; most respectable economists and others had supported it. However, both its advocates and its opposers had exaggerated its importance and in America, where the principle had been accepted, feeling was by no means unanimous.

The actual wording of the Bill (as we pointed out two weeks ago) was not satisfactory. MR STRAUSS said that there were a great many technical objections to it. One he mentioned, which certainly does not appear from the Bill itself, is that if the Bill became law it would be impossible for a company adopting it to acquire the business or the shares of another company. A more comprehensible objection, and one which we feel sure will be supported by many accountants, is that the Bill would involve consequential amendments to the already complicated provisions of the existing law dealing with the presentation of accounts and with cognate matters.

MR STRAUSS concluded by saying that he could not advise the House to give a Second Reading to the Bill. Although he said that expert inquiry would be necessary before the reform could be embodied in an appropriate measure, he gave no indication that the Government had any intention of setting up such an inquiry.

Par values for the ordinary shares of established companies are of course in some respects anomalous, but whether they in fact mislead anyone to his detriment is doubtful. If there are people who are misled, they are probably in any case unable to comprehend a balance sheet, or even the essential nature of an ordinary share, whether it is shown as having a par value or not. If simplicity and comprehensibility are the aims, they are not likely to be furthered by new legislative provisions dealing with accounts. After all, the existing provisions which will soon be celebrating their fourth birthday, are still imperfectly understood.

STOCK COST DETERMINATION

On another page we publish a plea from a correspondent for the adoption of the base stock method of valuing stocks. When, however, he states in the second paragraph of his letter that the system is 'a well established principle' in America, it would seem to be the 'last in, first out' (or LIFO) method which he has in mind. As the two systems, although comparable, differ in certain respects it might be well, in the interests of clarity, to define them.

The base stock method postulates that the materials requirements of the company adopting it will be fairly constant quantitatively and that prices will remain relatively stable. On these hypotheses, the value of the basic stock is determined and maintained year by year, irrespective of physical movements, at the same figure. The result is that when prices tend to rise, the total increased costs of production are set off against the sales for the corresponding period, no portion being carried forward with the unsold stocks. By the more conventional methods of accounting measurement, both the value of the closing stocks and the profit for the period are thus understated. If the upward trend of prices is continuous, the understatement of stock values is cumulative in effect and should equal, at any given balancing date, the sum of the understatements of profit for the individual periods.

The LIFO method differs from the base stock method in two main respects. The first is that the exact physical stock, as opposed to a notional fixed amount, is valued and the second is that the prices taken are those of the earliest purchases still in stock and not the 'once for all' price of the first basic stock. When prices are rising, the LIFO method has the effect of restricting profits to the difference between the selling price of the goods and the cost of their replacement.

In its recommendation on the valuation of stock-in-trade, published in June 1945[1], The Institute of Chartered Accountants in England and Wales stated that there was only a limited application of either of these methods in this country. In America, the base stock method is seldom applied but the LIFO basis has, since January 1st, 1950, been officially recognized by the Commissioner of Internal Revenue and is now widely used.[2]

The main criticisms which have been directed against the LIFO method are that it gives a distorted trading result; that the extremes of profit caused by current economic conditions are minimized, thereby creating a false impression of stability; and that its primary purpose is the evasion or deferment of taxation commitments. Those in favour of the LIFO method hold that it, as with other methods used, cannot be applied universally but only in the appropriate circumstances. According to a memorandum submitted by the American Institute of Accountants to the United States Treasury Departments in 1938, conditions would appear to be appropriate – in industries where stocks are the preponderant current asset and consist of basic or homogeneous goods which form a substantial part of the cost of the products sold; when stocks are slow in being turned over on account of lengthy manufacturing processes or conditions of merchandising; when the price of the raw materials and that of the finished product tend to run parallel; and when the cost of the raw materials is so important a factor in running the business that fluctuations in prices cannot be absorbed by normal trading operations.

Whether or not the LIFO method of determining cost of stocks will ultimately be accepted, where appropriate, as common practice in this country, as it seems to have been in America, must depend above all else, on its consistency with sound accounting principles. On this condition precedent, the recommendations of the Royal Commission on the Taxation of Profits and Income now sitting and the ultimate decision in the case, at present under appeal, to which our correspondent refers, will presumably be based. It should always be kept in mind that once a basis of stock valuation has been adopted by a company, it has to be adhered to consistently. Should there be a downward trend of prices at some future date, the whole mechanism of the LIFO method would go into reverse and tax would be exacted on what might then be considered to be an overstated profit.

[1] *The Accountant*, June 16th, 1945, page 302.

[2] *The Accountant*, January 12th, 1952, page 26.

TRENDS IN PROFITS

A VERY large volume of statistics relating to company profits and their appropriation has become available in recent years as a result of the operation of the Companies Act. These large and ever-growing statistical data have not proved an unmixed blessing, however. To the accountant, the interpretation of profit trends from an aggregation of published profits presents few difficulties. To the uninitiated also, the problem looks simple because he is prepared to take the gross figures at their face value and use them as a basis for his conclusions. But there is yet another class, the initiated who refuses to accept the findings which emerge when all the evidence is thoroughly sifted. In no other field of applied economics is there to be found so much wilful and unwitting misconception. This reveals itself in such proposals as those for compulsory limitation of dividends, or the oft-repeated argument that, of course, an industry can pay higher wages without increasing its prices because its profits are so high. A similar belief is implied when the statement is made that higher costs of fuel, transport or raw materials can easily be absorbed without the necessity for higher prices. Industry and commerce owes it to itself to educate the simple and thereby defeat the wiles of those who would wilfully mislead them. The furtherance of the spread of true knowledge is the apology which is offered for the present article.

Although no regular analysis of company profits is made and published by Government departments, a number of economic and financial journals perform this service. The analysis usually takes the form of a comparison of aggregate profits and their distribution with the corresponding figures for the previous year. For a considerable time now each analysis has shown an increase in the amount of profit compared with a year earlier. The slight tendency for these higher profits to be followed by an increase in the rate of dividend attracted the attention of the Government in the summer of 1951. Since then published profits have still further increased but without the accompaniment of higher dividends. The argument which follows can best be understood if certain figures are quoted. For these, we are indebted to *The Economist*. Company statements published in the last quarter of 1951 show that some 567 companies earned £435 million in gross profits and other income. This corresponded to £281 million for the previous year, or an increase of 55 per cent. However, a substantial part of this increase of £154 million was attributable to a small number of oil companies. If these are excluded, the increase is still, on the face of it, extravagant – some 32 per cent. As a contrast, the fact that wages rose by not more than 10 per cent in 1951 has been quoted. How illusory such figures of profits can be is shown by appropriation of this increase. No less than £68 million or 45 per cent of this increase was taken away in taxation. Depreciation and maintenance absorbed another £10 million, reserves against future tax liabilities £44 million, whilst ordinary dividends took a paltry £1·3 million more, or less than 1 per cent of the increase. In the light of such figures compulsory dividend limitation seems as clumsy and unnecessary as the use of a battering ram against a wide-open door. Nor do arguments in favour of an excess profits tax carry very much weight. Indeed, in the cases under consideration ordinary shareholders received a slightly lower percentage return, on the net worth of their companies, compared with that of a year earlier.

If a reason is sought for these increases in gross profits this is surely to be found in the prevailing inflationary situation. This was strongly reflected in the rise in the value of stocks held and this could be accounted for by a rise in prices rather than by an increase in volume. The replacement of these stocks at current prices will, of course, make substantial inroads into such profits as have been ploughed back after the tax collector has taken his toll. It is not unreasonable to conclude that the apparently large increase in profits which showed itself during 1951, sufficed to finance the replacement of stocks and fixed assets having regard to the relevant increase in prices. It is doubtful if they were sufficient to provide for any real increase in the fixed assets held; they certainly did not permit of any increase in the rate of dividends on net worth. Thus, real new resources can only be paid for out of new capital or loans, and the rates of dividend are not such as prove attractive to new equity capital.

THE RIGHTS OF PREFERENCE SHAREHOLDERS

by SPENCER G. MAURICE, Barrister-at-Law

THE rights of preference shareholders of a company in respect of dividends, and in respect of the distribution of the assets of the company, have been considered by the Courts in a number of recent cases, the result of which has been to clarify considerably the question of what those rights are. The purpose of this article is briefly to review, by reference to the more important cases, and particularly the recent ones, the position as now established.

No Right prima facie to Share in Surplus Profits

Prima facie, the preferential right of a preference shareholder is restricted to a right to a preferential dividend; but he may, by special provisions in the articles of association, be given the right to have his capital paid off in priority to the other shareholders in the winding-up of the company. It has been established since *Will v. United Lankat Plantations Company Limited and Another* ([1914] A.C. 11) came before the House of Lords, that a subscriber who takes preference shares with a fixed preferential dividend and a first right to the capital in a winding-up, is not entitled, in the absence of any special provision in the articles of the company, to any greater share of the profits than that given to him by his preferential dividend.

In view of the fact that the House of Lords had decided that the rights of a preference shareholder in respect of profits were, in the absence of express provisions to the contrary, restricted to the share given by the preferential dividend, it was to be expected that a similar construction would be placed on a preference shareholder's rights in a distribution of capital assets, and that he would be held entitled to receive no more than the nominal value of his shares, unless expressly given a right to share with the ordinary shareholders in surplus assets. In *In re William Metcalfe and Sons Limited*, ([1933] Ch. 142), however, the Court of Appeal held that the memorandum and articles of a company could not be construed as either expressly or impliedly depriving the preference shareholders of their right as contributories to share in the distribution of surplus assets *pari passu* with the ordinary shareholders on the liquidation of the company.

No Longer a Right prima facie to Share in Surplus Assets

The decision in *In re William Metcalfe and Sons Limited* was hard to understand, but it remained good law till *Scottish Insurance Corporation Limited v. Wilsons and Clyde Coal Company Limited* ([1949] A.C. 462) came before the House of Lords. The company, which had lost its assets by nationalization, desired to reduce its capital by, *inter alia*, making a full return of capital to the holders of preference stocks (and thus extinguishing those stocks). Certain of the stockholders concerned objected on the ground that the desired reduction would deprive them of the advantage of their investment, of their right to participate in the liquidation and the division of the company's surplus assets, and of the opportunity of a favourable adjustment under Section 25 of the Coal Industry Nationalization Act. The House of Lords (by a majority) held *In re William Metcalfe and Sons Limited* to have been wrongly decided. Their Lordships considered the articles of the company and found that, if there were no reduction of capital, the holders of preference stock would not in a winding-up be entitled to anything more than a return of their paid-up capital: accordingly, the preference stockholders had no reason to claim more in a reduction of capital, or to object to being repaid in that way the amounts which they would receive on a liquidation.

Two Principles Established

The House of Lords followed *Scottish Insurance Corporation Limited v. Wilsons and Clyde Coal Company Limited* in *Prudential Assurance Company Limited and Another v. Chatterley-Whitfield Collieries Limited* ([1949] A.C. 512,) where the facts were very similar, but there was no liquidation in prospect. It is to be observed that in both cases the holders of preference stock or shares were paid off while the company was still a going concern. It accordingly remained open to question whether or not the principle in those cases applied when the company was already in voluntary liquidation, a question which was resolved in the affirmative by the Court of Appeal in *In re Isle of Thanet Electricity Supply Company Limited* ([1950] Ch. 161).

Giving the leading judgment in the Court of Appeal in that case, Wynn-Parry, J., gave it as his opinion that the effect of the authorities was to establish two principles:

'. . . first, that in construing an article which deals with rights to share in profits, that is, dividend rights and rights to share in the company's property in a liquidation, the same principle is applicable; and, second, that that principle is that, where the article sets out the rights attached to a class of shares to participate in profits while the company is a going concern, or to share in the property of the company in liquidation, prima facie the rights so set out are in each case exhaustive.' ([1950] Ch. 171.)

Payment of Arrears of Dividend

In the absence of a clear indication to the contrary a dividend payable on preference shares is cumulative; that is to say, where the profits of any one year are insufficient to pay the preferential dividend, the deficiency must be made good out of the profits of subsequent years. This means that as long as the company is a going concern the position is always reasonably clear. It is, however, less easy to decide whether the holders of preference shares are entitled to be paid arrears of dividend in the winding-up of the company, and whether or not they are so entitled is dependent in each case on the memorandum, the articles, or the terms of issue of the shares concerned, as the case may be. A question of this kind came to be considered in the recent case of *In re E. W. Savory Limited* ([1951] 2 All E.R. 1036), where Wynn-Parry, J., in the Chancery Division considered in what way the construction of the relevant provisions was affected by the principle established in *Scottish Insurance Corporation Limited v. Wilsons and Clyde Coal Company Limited*, and extended in *In re Isle of Thanet Electricity Supply Company Limited*, to the case of a company already in liquidation.

A Right to Arrears

The right of preference shareholders to arrears of dividend in a winding-up was considered in three reported cases subsequent in date to the decision of the Court of Appeal in *In re William Metcalfe and Sons Limited*, and prior to that of the House of Lords in *Scottish Insurance Corporation Limited v. Wilsons and Clyde Coal Company Limited*.

In the first of those three cases, *In re Walter Symons Limited* ([1934] Ch. 308), the memorandum of association provided that:

'The preference shares shall confer the right to a fixed cumulative preferential dividend at the rate of 12 per cent per annum on the capital for the time being paid up thereon . . . and shall rank both as regards dividends and capital in priority to the ordinary shares, but shall not confer the right to any further participation in profits or assets . . .'

Maugham, J. (as he then was), held that the holders of preference shares were entitled in a liquidation to be paid arrears of dividend and to be repaid their capital in priority to the holders of ordinary shares. His Lordship thought that the use of the word 'rank' and the reference to capital in the phrase:

'and shall rank both as regards dividends and capital in priority to the ordinary shares'

made it reasonably clear that the provision covered what was to take place in a winding-up. Furthermore, he thought that the words

'but shall not confer the right to any further participation in profits or assets',

words which excluded the right to share in surplus assets which, according to the decision in *In re William Metcalfe and Sons Limited*, prima facie belonged to preference shareholders, pointed very strongly in favour of the view that the clause was dealing with what was to happen in the winding-up of the company. But Wynn-Parry, J., pointed out in *In re E. W. Savory Limited*, that Maugham, J., was prepared to construe the clause in favour of the preference shareholders even in the absence of the words last cited.

No Right to Arrears

In *In re Wood, Skinner and Company Limited* ([1944] Ch. 323) the relevant clause in the memorandum of association was as follows:

'Such preference shares shall confer the right to a fixed cumulative dividend of £6 per cent per annum on the capital paid up thereon and shall rank both as regards dividends and capital in priority to the ordinary shares with power to increase the capital.'

In re William Metcalfe and Sons Limited being then good law it was inevitable that Cohen, J. (as he then was), should consider the preference shareholders entitled to participate with the ordinary shareholders in the surplus assets of the company. Distinguishing *In re Walter Symons Limited*, he held that the holders of preference shares were not entitled to arrears of dividend in the winding-up – a decision which appears equitable in view of the fact that, had there been any surplus assets (and in fact there were not), the preference shareholders would have been entitled to share in them. It is to be observed that there was in that case (as Wynn-Parry, J., pointed out

in *In re E. W. Savory Limited*) no provision for the cumulative dividend to be a preferential dividend.

In *In re F. de Jong and Company Limited* ([1946] Ch. 211), on the other hand, the Court of Appeal had to consider an article almost similar in wording to the clause in the memorandum of association in *In re Walter Symons Limited*, cited above; the concluding words were:

> '. . . and shall have priority as to dividend and capital over the other shares in the capital for the time being, but shall not carry any further right to participate in the profits or assets.'

Morton, L. J. (as he then was), delivered the leading judgment in the Court of Appeal and concluded, as Maugham, J., had concluded in the case of the similar provision in *In re Walter Symons Limited*, that the reference to 'dividend and capital' required that the provision should be construed as referring to the time when the company had gone into liquidation.

The Position Today

In *In re E. W. Savory Limited*, the article concerned was in similar terms to the relevant clause of the memorandum of association in *In re Wood, Skinner and Company Limited*. That is to say, it differed from the clause of the memorandum in *In re Walter Symons Limited*, and the article in *In re F. de Jong and Company Limited*, in not expressly excluding further participation in the profits and assets. But Wynn-Parry, J., agreed with the submission of counsel for the preference shareholders that the result of *Scottish Insurance Corporation Limited v. Wilsons and Clyde Coal Company Limited*, and *In re Isle of Thanet Electricity Supply Company Limited*, was that such an exclusion of further participation must be implied as a matter of construction. Accordingly his Lordship followed *In re Walter Symons Limited*, and *In re F. de Jong and Company Limited*, and held the preference shareholders entitled to be paid arrears of dividend in priority to any repayment of capital to the holders of the ordinary shares of the company. In other words, had the relevant provision in *In re Wood, Skinner and Company Limited*, come before the Court today it would have been construed in the opposite way to that in which it was construed in 1944, since now preference shareholders cannot participate in surplus assets unless they are expressly given the right to do so.

Wynn-Parry, J., having decided that the preference shareholders were entitled to arrears of dividend then had to decide whether those arrears should be calculated up to the commencement of the winding-up of the company or down to the date of repayment. In the absence of any express provision to the contrary in the article in question, his Lordship held that the preference shareholders were entitled to arrears until the date of the liquidation only.

CHECKING THE CHEQUES

BANK RECONCILIATIONS WITHOUT TEARS

by K. N. TURNBULL, A.C.A.

THIS method is designed to reduce time which is frequently spent in tracing cheque payments from the bank statements back to the cash-book or cash payments sheets, as the case may be. While the suggestions may not be original, they may help accountants in commerce and they may be of interest to those in practice.

The method is suitable for a business which has a large number of cheque payments; which uses the printed form on the back of the cheque as a receipt; which records the numbers of the cheques alongside the entry; and which receives the cancelled cheques from the bank at regular intervals.

The method is as follows:

(1) Put serial numbers on the bank statements.

(2) Check the cancelled cheques with the bank statements. This is necessary as banks normally require a form of receipt covering the cheques. As this is being done, write or stamp the serial number of the bank statement on a convenient part of the cheque, e.g. the top right-hand corner.

(3) Sort the cheques into numerical order according to the printed number of the cheque.

(4) The cancelled cheques are now in the same order as they appear in the cash-book or cash payments sheets.

(5) Check the cancelled cheques against the entries in the cash-book etc., entering the serial number of the relevant bank statement as shown on the cheque. This is a luxury usually appreciated by the auditors.

(6) The cancelled cheques, being already in numerical order, may now be provisionally filed away, subject to the adding, at a later date, of any which are outstanding.

WEEKLY NOTES

The Budget

The Chancellor of the Exchequer will be making his Budget statement in the House of Commons on Tuesday next, March 11th, and our next issue will contain a leading article on this, together with details of the proposed changes.

The Royal Commission's Chairman

Lord Waverley's chairmanship of the Royal Commission on the Taxation of Profits and Income must have been the shortest Royal Commission chairmanship on record. His appointment was announced in the House of Commons on February 26th and by February 29th he had resigned. His resignation was the result of criticism in the House of Commons and in the Press, the point being made that his association with a political party made him unsuitable for an appointment of a quasi-judicial nature. In view of the long delay which has already taken place in appointing a successor to Lord Cohen, it is to be hoped that the third choice will be made known soon. Indeed, now that Mr Millard Tucker has been appointed vice-chairman there would be a good deal to be said for pressing on with the Commission's work even in the absence of the new chairman, whoever he may be.

The Prime Minister was asked in the House of Commons on March 3rd whether the change in the Commission's terms of reference (mentioned in our last issue) had been made at Lord Waverley's request and whether the original terms would now be restored. Mr Churchill said he would require notice of these questions.

The Institute of Chartered Accountants of Scotland

Sir David Allan Hay, K.B.E., C.A., has been nominated by the Council of The Institute of Chartered Accountants of Scotland for election as President of the Institute for the year 1952–53. Senior partner in the firm of Grahams, Rintoul, Hay, Bell & Co, Chartered Accountants, of Glasgow, Sir David was President in 1944–46, of the former Institute of Accountants and Actuaries in Glasgow.

The Council has also nominated, for election as Vice-President, Mr John Livingston Somerville, C.A., F.R.S.E., senior partner in the firm of Wallace & Somerville, Chartered Accountants, of Edinburgh.

Lion Dormant

For the long period of fifty-five years, the Association of Scottish Chartered Accountants in London has served the interests of the members of the three Scottish accountancy bodies domiciled in the capital. These interests, as a result of the amalgamation, will now be the concern of the London Local Committee of The Institute of Chartered Accountants of Scotland. The Association will, however, continue to exist passively for the present and the necessary resolutions[1] putting it, in the words of the committee's report, 'to sleep rather than to death' were passed unanimously at the annual general meeting of members held at The Institute of Chartered Accountants in England and Wales, Moorgate Place, EC2, on Wednesday, February 27th. Mr T. Lister, M.A., C.A., was appointed chairman of the Association in place of Mr C. I. R. Hutton, C.A., who retired at December 31st, 1951, and Messrs Charles Reid, D.S.O., M.A., C.A., and J. G. Girdwood, C.B.E., C.A., were elected to the two committee vacancies caused by the retiral of Messrs D. C. Macdougall, C.A., and R. Adams, C.A. At the annual meeting of the Golf Club which followed, Mr Girdwood, last year's captain, nominated Mr C. D. Gairdner, C.A., as his successor.

Although the lion rampant of the Association thus became, constitutionally if not heraldically, a lion dormant, the buffet supper which followed the translation was, to continue the metaphor, a roaring success. At this function, many members had the pleasure of making the acquaintance of Mr E. H. V. McDougall, solicitor, the Secretary of The Institute of Chartered Accountants of Scotland, who had earlier attended the annual general meeting of the Association.

La Reine le veult

The income-tax legislation is now consolidated and as from the 6th of next month all those sections and rules with which tax practitioners are so familiar, such as Section 34, Rule 3 of Cases I and II, and Rule 9 of Schedule E will have new names. The Income Tax Act, 1952, passed through the remaining stages in the House of Commons on February 26th and received the Royal Assent on the 28th. It was in fact the first Act to be passed in the new reign and marked the return from the ancient Norman French formula, *Le Roy le veult*, to *La Reine le veult* – last used in the reign of Victoria.

The Income Tax Payers' Society

The Executive Committee of the Income Tax Payers' Society has sent a memorandum to the Chancellor of the Exchequer on the subject of the coming Budget. The Committee asks for an increase in the rate of age relief accompanied by an increase in the income limit of £500; it points out that elderly people living on fixed incomes are especially hard hit by the decline in the purchasing power of money combined with increased taxation. The Committee also seeks an increase in the maximum allowance for earned income. It suggests that where a taxpayer dies over the age of 65 without having claimed his post-war credit, his personal representative should be entitled to

[1] See *The Accountant*, February 23rd, 1952, at page 203.

claim it without regard to the age of the beneficiaries. The Society endorses the F.B.I. suggestions about profits tax and the new excess profits tax, and recommends a reduction in the standard rate of income-tax as the first major relief when the economic situation permits.

Proposed Increase in Housing Subsidies

The rise in prices and interest rates is having its effect on housing provided by local authorities. The Government has evidently come to the conclusion that not all of the increase in cost shall be passed on to the tenants in the form of increased rents. The Minister of Housing and Local Government gave details of proposed higher subsidies in a written Parliamentary reply on February 28th. The figures he gave showed considerable increases in many cases in Exchequer and rate subsidies. These changes require legislation, which the Minister hopes to introduce at an early date.

More Unemployment

Pockets of unemployment which have developed since the autumn of last year in those areas dependent upon certain consumer goods such as textiles have now begun to manifest themselves in the official employment figures. There were 378,700 registered as unemployed at January 14th. This represented 1·8 per cent of total employees in the country compared with 1·4 per cent in December and with 1·6 per cent at January 1951.

This increase is therefore rather larger than has been the seasonal experience at mid-winter in recent years. It may be recalled, however, that before high employment ratios were established since the war, a 3 per cent unemployment ratio was regarded as approximately equivalent to a state of full employment.

There was a fall in employment during December of 123,000 but it is also clear from the figures that there were more people in jobs in December 1951 than at the same time a year earlier. Seasonal factors played a large part in the rise in unemployment, as is always true at this time of the year. There was a drop of 36,000 in building for instance, and a seasonal lay-off (perhaps a particularly heavy one) in the catering industry. Textiles lost a large number comparatively speaking, and so did clothing and the food trades. The chief industries to increase their labour force were coal-mining and the metal and engineering industries.

These figures could mean that the essential industries are beginning to add to their working force at the expense of consumer goods industries. It is, however, rather early to say that this is so. But if this should be the case, there will follow particularly heavy pressure on the supply of consumer goods in the home market unless purchasing power is kept in check. Some indication of how this is to be done will perhaps be forthcoming on Budget Day.

Setback to Output

A definite if mild decline in industrial activity set in towards the close of last year and it has been continued into the first month of this year. Lower sales in the shops in the autumn had their effect on production in the textile industries and the much publicized shortage of steel had begun to act as a brake on some of the capital goods industries. Such is the tale told by the official index of production which is now available for December and in a provisional form for January.

Such figures re-echo the recent returns of unemployment which have shown sizeable pockets of workless men and women in parts of the North and in the East Midlands. The fall in industrial production is not large. The December index of the Central Statistical Office is 137 compared with 140 for the same month of 1950. January is expected to be around 139 and 140 – which will keep it to within about one point on the wrong side of the index for January 1951. It is too early to tell yet, however, if this setback will be reversed by the seasonal upswing of spring industrial activity or whether, and how far, disinflation has taken a grip.

The Rate of Defence Expenditure

The expectation that this country would not be able to carry out its defence programme as quickly as had been originally estimated has now come out in the official forecast of expenditure on the armed forces for 1952–53. The new estimate for the incoming fiscal year is £1,462 million compared with £1,500 million budgeted originally at 1950 prices. If allowance is made for some £85 million of economic assistance forthcoming from the United States, the burden for the year comes out at £1,377 million.

It is made clear in the statement, which was issued recently as a White Paper, that the lower rate of outlay is not due primarily to shortages of men and materials, though these have played a part. The chief cause of the delay is a deliberate scaling down of expenditure to prevent an insuperable burden falling on the engineering and metal industries which are vitally necessary to help in the export drive. So far as shortages are concerned the White Paper considers labour a more acute problem than materials.

Although there has been a revised and lower estimate for defence outlay for the next fiscal year compared with the first calculations made, the new figure will in fact put the defence burden on the taxpayer up by some £246 million compared with the fiscal year now closing. This sum could probably be made good on the credit side of the national accounts by higher receipts from profits tax and income-tax and and also from cuts in expenditure. If this should be so the increase in the defence programme will not need special budgeting for and will not of itself directly divert the Chancellor's attention from framing a Budget which it is hoped will be conceived to combat inflation.

REVIEWS

Key to Profits Tax
Second Edition
Edited by Ronald Staples

(Taxation Publishing Co, London. 7s 6d net, 7s 9d post free)

This is a companion volume to the publishers' *Key to Income Tax* and has a similar layout with an ingeniously arranged index. The 105 pages of clearly-written text include treatment of that part of the law which ceased to apply after 1946 besides dealing very fully with the current law. The whole of the relevant statute law, covering 112 pages, is also included, together with many worked examples. Anyone who wishes to enter the confusing labyrinth of profits tax law cannot do better than take this Key with him. Certainly, the information it gives cannot be obtained more cheaply.

Skinner's Property Share Annual, 1951

(Thomas Skinner & Co (Publishers) Ltd, London. 30s net)

The second edition of this reference annual brings up to date and extends the wealth of information which appeared in the 1950 volume. The main purpose of the book is to present to investors, stockbrokers, bankers, solicitors, property-owners and others, details of companies whose principal concern is the ownership of real estate within the British Isles and who have at least one class of their loan or share capital quoted officially on a recognized stock exchange in Britain.

For each of the companies in the annual – they number about 170 – there is a ten-year earnings record and details of property owned, while a statistical section tabulates for comparison the particulars of 144 companies, showing capital, book cost of properties, profits and dividends. The annual concludes with an index of directors of property companies.

Case Lore
by Ernest Evan Spicer, F.C.A.
Illustrated by George Charity

(H.F.L. Publishers Ltd, and Reinhardt & Evans Ltd, London. 21s net)

The author seeks to illustrate the workings of the law – particularly taxation law – by a series of stories showing its practical effect in concrete cases. For these stories he has drawn upon an extensive practical experience so that the book does help very considerably to bridge the gap which must exist between text-books and practice, although it is of course no substitute for either. Many of the stories are amusing as well as instructive, and the book is altogether a most refreshing and interesting one.

Income Tax Law and Practice
Twenty-third Edition
by Cecil A. Newport, F.A.C.C.A., and Oliver J. Shaw, Barrister-at-Law

(Sweet & Maxwell Ltd, London. 25s net)

This new edition of the well-known work contrives to deal with the Finance Act, 1951, and the recently published Revenue concessions without increasing its length by more than three pages. For the rest, the book maintains the standard which has earned it so many eulogies from reviewers in the past.

Income Taxes in the Commonwealth
Vol. I: Australia, Canada, Ceylon, India, New Zealand, Pakistan, and the Union of South Africa

(H.M.S.O. 18s net, by post 18s 9d)

This digest of Commonwealth income-taxes is the successor of the former publication *Income Taxes in the British Dominions* issued by the Inland Revenue and now out of date.

Remarkably full information as to the substantive law is given, details of the administrative machinery being omitted. There is a separate index for each country. The remaining countries will be covered in a second volume and the whole will be kept up to date by supplements. Nowhere else is so much heterogeneous information brought together in such convenient form; the book is extremely good value.

SHORTER NOTICES

UNDERHILL'S LAW RELATING TO TRUSTS AND TRUSTEES, Supplement to Tenth Edition, by M. M. Wells, Barrister-at-Law. (Butterworth & Co (Publishers) Ltd, London. 5s net, by post 5s 3d.) This eighteen-page supplement brings the main work up to date at September 1st, 1951. The development of general trust law still proceeds with unabated vigour and there is the added interest of the various cases arising out of the nationalization of hospitals.

THE LAW OF WILLS, Second Edition, by Rupert Cross, M.A., B.C.L., Solicitor. (Stevens & Sons Ltd, London. 6s net.) This slim volume of under 100 pages is one of the publishers' 'This is the law' series and is of course intended for laymen. It is a very clearly written introduction to the subject and could well be read as a preliminary to more detailed study.

GARSIA'S LAW RELATING TO BANKRUPTCY IN A NUTSHELL, Fourth Edition, by Immanuel Goldsmith, LL.B., Barrister-at-Law. (Sweet & Maxwell Ltd, London. 6s 6d net.) Although primarily intended as a student's quick revision book, this 'nutshell' is also of value to anyone requiring a brief conspectus of a subject which bristles with technicalities and detail. It is arranged in the form of tabulated notes which can be read through and learned quickly.

FINANCE AND COMMERCE

Next Tuesday's Budget has had stock markets in a stranglehold all this week. An interesting development, however, has been the volume of small support for British Government stocks. Whether this support can be taken as indicating the bottom of the gilt-edged fall is difficult to say but it is possible that the setback may not have much further to go. The fall has persisted now for fully five years, and War Loan has fallen from 107 to 79.

The Sterling Angle

This week's reprint of the accounts of Liebig's Extract of Meat Co Ltd places on record an important accounting development. The consolidated balance sheet is this year in a revised form which differentiates between sterling and non-sterling assets and liabilities. The change has been made with the advice of the company's auditors.

The main object of this new presentation is to show the amount of the group's net assets lying within the United Kingdom and territories whose currencies are linked with sterling, and the extent to which it is committed in non-sterling countries. These include not only those countries in the River Plate area where the company has substantial interests, but also countries in Europe, the Sudan, the U.S.A. and Canada.

Mr Kenneth M. Carlisle, the chairman, points out that the position of the group has eventually to be appraised in terms of sterling and it is the value of its non-sterling assets expressed in sterling which is liable to be affected either favourably or adversely by alterations in exchange value, in relation to the £ sterling, of the various currencies involved. Under present-day conditions, the value of these currencies in terms of sterling varies frequently and, whereas some are now referred to as 'strong', it seems possible, he says, that others may depreciate still further.

Non-sterling Assets

Against the non-sterling assets, there is a provision of £1,243,000 by the parent company which appears in the consolidated balance sheet. It is this provision, consisting in the main of amounts provided from past profits of the parent company and of reserves of Continental European subsidiaries capitalized and transferred to the parent in the form of bonus shares, which is available to meet eventual losses on assets in non-sterling countries, including exchange losses.

Net unrealized losses on exchange to balance sheet date in respect of non-sterling subsidiaries amounted to £539,000 and have been deducted from the provision, leaving a balance unabsorbed of £704,000, which has been included with the group's reserves.

The parent company's own exchange losses have hitherto been met from its own profits and reserves. Its reserve for contingencies, which amounts to £450,000, including a proposed appropriation of £33,440, is a further cover against such eventualities.

'Formidable Figure'

Net exchange losses during the year under review will be seen in the consolidated profit and loss account to have amounted to £407,680, a 'really formidable figure', says the chairman, which has arisen almost entirely from the devaluation of the guarani, the Paraguayan currency. The guarani was quoted at balance sheet date at G.91 = £1, as compared with a rate of G.22·54 = £1 a year previously.

Mr Carlisle remarks that inflation has been rampant in the River Plate countries during the last few years and, unfortunately, shows no signs of abating. Even so, he adds, it must be admitted that a fall in the value of the guarani to the extent realized was something of a shock for companies operating in that country.

'It is a considerable disappointment', he concludes, 'to find our profits whittled away by factors over which we can exercise no control, even though there is the consolation that exchange losses arising on the parent company's current assets can be charged against trading profits in arriving at the liability to United Kingdom taxation.'

We extract from the lengthy notes on the accounts the account of the parent company's provision against non-sterling assets. Another interesting point is the

Note 21. The Provision of the Parent Company against Non-Sterling Assets, which includes items arising on consolidation, is made up as follows:

	£	£
Provision of the Parent Company against Net Assets of Continental European and other Non-Sterling Subsidiaries, brought forward ..		713,878
Add Parent Company's proportion of Reserves and Undistributed Profits of Subsidiary Companies, capitalized:		
Capital Reserves ..	170,482	
General Reserves ..	52,746	
Reserves for Contingencies	12,481	
Profit and Loss Accounts ..	4,699	
Surplus arising on Revaluation of Fixed Assets of a Subsidiary Company, effected during the year ..	266,000	
		506,408
Capital Profits and Dividends, 1949/50, paid during the year by Argentine Subsidiary Companies to the Parent Company's Buenos Aires branch:		
Capital Profits ..	11,013	
Dividends ..	31,944	
		42,957
Surplus arising on liquidation of a Subsidiary Company ..		6,713
Sundry Capital Profits ..		4,415
		1,274,371
Deduct Amount transferred to Profit and Loss Account, being 1948/49 Dividends of Argentine Subsidiary Companies now remitted to United Kingdom ..		31,328
Provision of the Parent Company against Non-Sterling Assets, as per Consolidated Balance Sheet ..		£1,243,043

explanation that fixed assets 'as valued' (in the consolidated balance sheet) consist mainly of assets on the continent of Europe, the values of which have been written up in recent years in order to obtain larger depreciation allowances for taxation purposes.

Money Market

Treasury bill applications on February 29th were some £21½ million lower than the previous week at £249,540,000. The market lowered its bid from £99 15*s* to £99 14*s* 10*d* and received 67 per cent of requirements compared with 58 per cent previously. There was a sharp rise in the average rate to £1 0*s* 6·78*d* per cent against 19*s* 10·55*d* per cent. This week's offer is held at £200 million. The rate is the highest since the changed monetary policy was introduced last November.

LIEBIG'S EXTRACT OF MEAT COMPANY LIMITED AND SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account
Incorporating the Profits and Losses of the Parent Company and 23 Subsidiary Companies for the year ended August 31st, 1951, of 4 Subsidiary Companies for the year ended December 31st, 1950, and of 1 Subsidiary Company for the year ended May 31st, 1951

			£	1950 £
Profits less Losses on Trading, Rents and Sundry Receipts, less Administration and General Expenses (other than those separately stated below)			2,100,370	1,665,242
Note: The above totals have been arrived at after making sundry provisions £12,983 (£52,595)				
Dividends (Gross):				
Trade Investments		3,946		4,591
Other Investments		1,191		1,062
			5,137	
			2,105,507	1,670,895
Deduct:				
Depreciation and Amortisation of Fixed Assets		212,603		173,912
Interest on Debentures and Secured Loan		13,392		16,055
Bank Interest Payable		19,803		17,861
Remuneration of Directors of Parent Company:				
Fees		29,023		28,769
Other Emoluments		12,399		11,750
Special Contributions to a Staff Pension Fund (see Note 1)		27,600		27,600
Provisions for:				
Foreign Taxation		278,954		200,685
Deferred Repairs		5,000		8,400
Other Liabilities		93,278		44,392
Exchange Losses *less* Profits		407,680		207,818
Auditors' Remuneration and Expenses		11,373		10,636
			1,111,105	747,878
Group Profit for Period before United Kingdom Taxation			994,402	923,017
Add:				
Items not attributable to the current period's trading (before United Kingdom Taxation):				
Provisions no longer required			46,299	11,139
Dividends from foreign Subsidiary Companies, remitted to United Kingdom			98,747	1,316
			1,139,448	935,472
Deduct:				
Provisions for United Kingdom Taxation (see Note 2):				
Profits Tax		238,000		157,000
Income Tax (including £19,854 (£25,500) deferred by Initial Allowances)		314,000		227,058
			552,000	384,058
			587,448	551,414
Deduct: Profits attributable to Outside Shareholders of Subsidiary Companies			23,478	19,622
Group Profit attributable to Parent Company, after Provision for United Kingdom Taxation			563,970	531,792
Deduct:				
Transfer by a Subsidiary Company to Reserve for Redemption of Debentures		12,036		14,265
Profits *less* losses for the period retained in Subsidiary Companies, together with Dividends not remitted to United Kingdom up to January 31st, 1952, £56,078 (£55,503)		292,485		267,092
			304,521	281,357
Brought into Accounts of Parent Company			259,449	250,435
Add:				
Balance brought forward from previous year			215,174	196,989
			474,623	447,424
Deduct:				
Appropriations by the Parent Company:				
Transfer to Reserve for Contingencies		33,440		—
Preference Dividends:				
On 5 per cent Preference Stock for year ended August 31st, 1951, *less* Income Tax	£26,979			27,500
On 4½ per cent Preference Shares for year ended August 31st, 1951, *less* Income Tax	23,906			24,750
	50,885			
Ordinary Dividend:				
Interim Dividend of 2*s* per £5 unit, tax free, paid July 5th, 1951	40,000			40,000
Proposed Final Dividend of 7*s* per £5 unit, tax free	140,000			140,000
		230,885		
			264,325	232,250
Balance carried forward in Accounts of Parent Company			£210,298	£215,174

The notes on page 8 are to be read as part of this Profit and Loss Account. [Not reproduced. – Ed.]

On behalf of the Board,
K. M. CARLISLE
FRANCIS GLYN } *Directors*

LIEBIG'S EXTRACT OF MEAT COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

Incorporating the Assets and Liabilities, according to their Balance Sheets, of the Parent Company and 23 Subsidiary Companies as at August 31st, 1951, of 4 Subsidiary Companies as at December 31st, 1950, and of 1 Subsidiary Company as at May 31st, 1951.

	£	£	1950 £
Authorized and Issued Capital of the Parent Company:			
£1,000,000 5 per cent Cumulative Preference Stock in units of £5 each, fully paid		1,000,000	*1,000,000*
£1,000,000 in 4½ per cent Cumulative Redeemable Second Preference Shares of £1 each, fully paid (Redeemable from January 1st, 1965, to December 31st, 1974, at a premium of one shilling per share, or after December 31st, 1974, at par.)		1,000,000	*1,000,000*
£2,000,000 Ordinary Stock in units of £5 each, fully paid		2,000,000	*2,000,000*
		4,000,000	*4,000,000*
Capital Reserves:			
Parent Company	1,062,748		*1,060,886*
Subsidiary Companies	900,103		*1,020,226*
		1,962,851	*2,081,112*
Revenue Reserves and Undistributed Profits:			
General Reserves:			
Parent Company	260,000		*260,000*
Subsidiary Companies	335,329		*206,001*
Reserves for Contingencies:			
Parent Company	450,000		*416,560*
Subsidiary Companies	225,024		*230,445*
Profit and Loss Accounts:			
Parent Company	210,298		*215,174*
Subsidiary Companies	123,195		*124,100*
		1,603,846	*1,452,280*
Reserves for future Income Tax (see Note 16) including £45,354 (*£25,500*) deferred by Initial Allowances		492,190	*315,371*
Provision of the Parent Company against Non-Sterling Assets (see Note 21)	1,243,043		*713,878*
Less Net Unrealized Losses on Exchange arising on consolidation of Subsidiary Companies	538,572		*538,216*
		704,471	*175,662*
		£8,763,358	*£8,024,425*

The notes on pages 8, 9 and 10 are to be read as part of this Balance Sheet. [Not reproduced. – Editor.]

On behalf of the Board,
K. M. CARLISLE } Directors
FRANCIS GLYN }

	Sterling £	Non-Sterling £	Total £	1950 £
Fixed Assets:				
Ranches and Agricultural Lands, at cost	85,958	895,174	981,132	*949,219*
Leasehold Properties, at cost	644,874	85,478	730,352	*505,897*
Land not included above, Factories and other Buildings, Plant, Machinery, Fleet, Motor Transport, Expenditure on Land and other Improvements, Agricultural Implements, Plantations, etc.:				
At cost or cost *less* sales	1,826,302	1,492,120	3,318,422	*3,103,785*
As valued	—	886,120	886,120	*543,730*
	2,557,134	3,358,892	5,916,026	*5,102,631*
Less Depreciation, Amortisation and amounts written off	866,311	1,067,615	1,933,926	*1,927,146*
	1,690,823	2,291,277	3,982,100	*3,175,485*
Investments:				
Trade Investments, at cost	264	18,158	18,422	*10,699*
Other Investments:				
Quoted on Foreign Exchanges and deposited abroad (Market value £14,645 – *£15,344*)	—	7,831	7,831	*8,958*
Not Quoted, at cost £19,778 (*£30,069*), *less* provision, £19,160 (*£19,075*)	—	618	618	*10,994*
	264	26,607	26,871	*30,651*
Current Assets:				
Livestock, Produce, Stores and Materials, as valued by the Companies' Officials	3,064,405	2,821,057	5,885,462	*5,358,827*
Sundry Debtors and Deferred Charges, *less* Provisions for Doubtful Debts	614,192	677,484	1,291,676	*1,304,027*
Tax Reserve Certificates	735,200	—	735,200	*882,625*
Bank Balances and Cash in Hand	544,441	407,694	952,135	*1,187,623*
	4,958,238	3,906,235	8,864,473	*8,733,102*
Less **Current Liabilities and Provisions:**				
Provisions, including Deferred Repairs and Rehabilitation, £66,957 (*£99,017*) and Employees' Provident Accounts, £178,756 (*£164,864*)	222,009	175,667	397,676	*390,671*
Bank Loans and Overdrafts	197,966	166,994	361,960	*170,890*
Bills Accepted (partly secured)	—	14,577	14,577	*130,491*
Sundry Creditors and Accrued Charges	459,514	781,178	1,240,692	*1,120,708*
Foreign Taxation	—	406,232	406,232	*269,586*
Current United Kingdom Taxation (see Note 16)	728,638	—	728,638	*928,075*
Parent Company Dividends:				
Five months' 5 per cent Preference Dividend to August 31st, 1951, *less* Income Tax	10,937	—	10,937	*11,458*
Three months' 4½ per cent Preference Dividend to August 31st, 1951, *less* Income Tax	5,906	—	5,906	*6,187*
Proposed Final Ordinary Dividend of 7s per £5 unit, tax free	140,000	—	140,000	*140,000*
	1,764,970	1,544,648	3,309,618	*3,168,066*
Net Current Assets	3,193,268	2,361,587	5,554,855	*5,565,036*
	4,884,355	4,679,471	9,563,826	*8,771,172*
Deduct:				
Unsecured Debentures issued by Continental European Subsidiary Companies	—	194,643	194,643	*239,245*
Secured Loan raised by a Continental European Subsidiary Company	—	14,031	14,031	*14,031*
Interests of Outside Shareholders:				
Preference and Ordinary Share Capital of Subsidiary Companies held by Outside Shareholders and proportion of Reserves and Undistributed Profits attributable thereto	515,098	43,770	558,868	*410,480*
Amounts in Suspense, arising from consolidation of Balance Sheets made up at different dates	77,757	44,831 (*Dr.*)	32,926	*82,991*
	592,855	207,613	800,468	*746,747*
	£4,291,500	£4,471,858	£8,763,358	*£8,024,425*

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CURRENT LAW

Company Winding-up: Arrears of Dividend

In *Re E. W. Savory Ltd* (*Law Times*, December 7th, 1951), the Court, Wynn-Parry, J., was called upon to construe article 5B of the company's articles, which read:

> 'The preference shares . . . shall confer on the holders the right to a fixed cumulative preferential dividend . . . and shall rank both as regards dividends and capital in priority to all other shares, both present and future.'

The question before the Court was up to what date the arrears should be calculated.

The learned judge ruled that on a true construction of the article, the date should be the commencement of the winding-up.

Gift Conditional on Use of Name

A testatrix left legacies on condition that the legatees should within a year assume the surname of Stewart, the gift to be void on failure or on the name becoming disused. The Court was asked to decide whether the proviso was valid.

Vaisey, J., held that the clause was uncertain in its effect and against public policy; that it was thus not binding. It was against public policy, he thought, on the basis of *Re Fry* ([1945] Ch. 348), in which a similar clause was described as coercive and quasi-punitive, by which with some reluctance he felt bound. On the subject of uncertainty the position was clearer, for the word 'disuse' connoted something which was gradual and it would be difficult to ascertain the moment when the gradual abandonment became complete. (*Re Lewis's Will Trust; Whitelaw v. Beaumont* (*Solicitors' Journal*, December 8th, 1951).)

Company: Number of Directors

A private company's articles provided that the number of directors was not to be less than one or more than five, but the company had power to alter these limits; that a casual vacancy could be filled by the directors, but that the appointee should be required to retire on the day on which his predecessor would have had to retire. The directors also had power to elect an additional director to retire at the next ordinary general meeting, though he should be eligible for re-election.

Zimmer's wife was appointed the first director of Zimmer's Ltd, and in June 1948 his brother was elected at the annual general meeting. In May 1949 the former resigned and thus there was a casual vacancy. The brother continued alone to January 1951, when his wife was appointed an additional director. In April 1951 the directors resolved that Zimmer be appointed a director, though whether an additional or to fill the casual vacancy was not stated. At the annual general meeting in May 1951, it was proposed that Zimmer and his wife, 'additional directors appointed by the directors, who retire from office under the provisions of article 79 of Table A, be appointed additional directors'. But neither was elected. The company contended that Zimmer (the defendant) had been appointed an additional director who had not been re-elected. They sought an injunction restraining him from entering their offices or in any way interfering with their business.

Parker, J., held that the casual vacancy no longer existed in April 1951, for where a company started with one director, later had five, and then reduced the number to one, it could not be said that there were four casual vacancies. If the vacancy had been subsisting in January 1951, the company would have elected the brother's wife to it, instead of making her an additional director. The defendant, in his opinion, ceased to be a director in May 1951 and the company were prima facie entitled to the injunction. (*Zimmers Ltd v. Zimmer* (*Solicitors' Journal*, December 15th, 1951).)

English and Belgian Wills: Probate

The deceased in *Re Wayland* (*decd.*) (*Solicitors' Journal*, December 15th, 1952) made two wills, one in Belgium applying solely to his Belgian estate and valid according to the law of Belgium (and, by the Wills Act, 1861, according to the law of England also); the other, two years later, covering only his estate in this country and valid according to the law of this country. The latter will, however, purported to revoke all previous wills.

Pearce, J. said that the facts pointed definitely to the testator's intention that the Belgian will should remain effective. The effect of such a revocation clause was not absolute and on the facts the foreign will was not revoked and could, since the Administration of Justice Act, 1932, be admitted to probate in this country together with the English will.

Liability of Contractor under Indemnity

A firm of contractors undertook to paint travelling cranes in a factory and indemnified the occupiers against claims for injury sustained in the execution of the work, but not for claims for injury caused by the occupiers' negligence or that of their employees. The occupiers' foreman informed the contractors' foreman before the work was started that the cranes were safe; nevertheless one of the cranes moved of its own accord and workmen were injured.

The Court of Appeal approved the decision of Humphreys, J., who held that the occupiers were liable as invitors. Denning, L.J., said that the indemnity covered all accident except that caused by negligence or default of the occupiers. The contractors had done all that was necessary in inquiring whether the cranes were safe and thus the occupiers were liable. (*Bott and Another v. Prothero Steel Tube Co Ltd; L. Dainty Ltd, Third Parties* (*Solicitors' Journal* December 29th, 1951).)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Base Stock Method of Valuation

SIR, – In *The Accountant* dated November 10th, 1951, in an article relating to the Royal Commission on Taxation, there is a reference under the sub-heading of 'Stock valuation' to a case which had been before the Special Commissioners in connexion with the base stock method of stock valuation.

In these days of inflation it seems to me that such a method of valuing stock goes a long way towards solving some of the problems of inflated and perhaps fluctuating profits and floating assets. For this reason I had expected to see some further reference in *The Accountant* to the subject. In America I believe it is a well established principle and I should be interested to know if any of your readers have had experience of the system.

Yours faithfully,
STOCKTAKER.

[The case referred to by our correspondent was one mentioned by Mr Millard Tucker, Q.C., at a public sitting of the Royal Commission held on November 1st, 1951. He added that he understood that the matter was going further. See leading article at page 238. – Editor.]

Capital Reserves, Revenue Reserves or Provisions?

SIR, – Mr Roberts considers, in your issue of February 23rd, that amounts set aside to finance replacements at enhanced costs should fall to be treated as provisions, and he places stress upon the interpretation of the words 'written off or retained' in Part IV of the Eighth Schedule to the Companies Act, 1948, Section 27 (1) (*a*).

The real intention of these words is surely to include amounts actually written off an asset account or which have been retained as a credit in a depreciation account. Ibid, in regard to the interpretation of the word 'renewals' this surely is intended to include sums set aside in what is really depreciation; 'renewals' in accounting terminology is commonly accepted to signify the supplying of some small worn-out part or parts. Mr Roberts, I suggest, is confusing 'renewals' with the word 'replacement'.

The basis of computation for provisions is on historical cost (I.C.I. excepted), and provisions must be made before profit for the year can be ascertained.

If Mr Roberts' 'dominant conclusion that a sum retained over and above historical depreciation is a provision no less than the historical depreciation' held good, profit figures would be vastly different. In effect, Mr Roberts has said that the Companies Act, 1948, is a legislation, in part, for accounting for inflation!

Yours faithfully,
London, SW16. COLIN A. PERRY.

SIR, – Mr F. A. Roberts' letter in your issue of February 23rd is most interesting, as the correct treatment of reserves for the replacement of fixed assets is, in these days of inflation, a matter of growing importance.

Mr Roberts has in mind, I think, the treatment of amounts set aside to provide for replacements of major fixed assets which are already depreciated on a historical cost basis, whereas the provisions of the Eighth Schedule to the Companies Act, with regard to replacement provisions, appear to me to refer to minor fixed assets which are not otherwise depreciated. Paragraph 5 of the schedule lays down the method normally to be adopted in the case of major fixed assets, whereby the cost and the provision for depreciation are to be stated separately. It then goes on to say that this method of presentation shall not apply, *inter alia*, to assets the replacement of which is provided for by charging the cost of replacement direct either to revenue, or to a provision for replacement.

The majority of major fixed assets are depreciated on the normal basis, and as such provision for depreciation has been made, a further provision for replacement in respect of the same assets must, I think, be regarded as an excess provision, which falls, under paragraph 27 of the schedule, to be treated as a reserve. This treatment appears quite logical, because it must be generally admitted that provisions for the current high cost of replacement are merely a means of ear-marking part of the undistributed profits which may be required for investment in fixed assets at a future date, and are not related to the using up of known past expenditure on fixed assets.

In the case of minor fixed assets such as loose tools, furniture and fixtures, etc., it is often difficult to calculate depreciation on known expenditure and the schedule therefore provides for cases where either replacements are charged direct to revenue (thus leaving the asset account at the same figure from one year to another) or a regulated charge is made against profits for the maintenance of a provision account, against which the cost of replacements can be charged as and when incurred. In this case the provision for replacements is an alternative charge to that of depreciation and not a supplementary charge, and further it is related to the actual cost of current replacements and not to some arbitrary conception of the amount of additional finance which may be required for replacement over a long-term future period, at inflated prices.

If Mr Roberts' view, that amounts set aside for replacement are provisions, is correct, it would appear to follow that they could be charged under the same heading as depreciation in the profit and loss account,

under paragraph 12 (1). If this were indeed so, it would present a temptation to charge excessively large amounts in order to reduce profits where these are running at a high level, as they are in many cases today.

It is unfortunate that there is some difference of opinion as to whether replacement reserves are of a capital or revenue nature. The lack of uniformity in accounting practice, however, is probably accompanied by a lack of uniformity in commercial practice. It is probably correct to say that in a good many cases a replacement reserve is regarded merely as a convenient way of setting profits aside in such a form that they do not appear to be available to the shareholders, and without any real relation to anticipated future financial requirements – which, it must be admitted, can seldom be estimated with any degree of accuracy. In such cases it is quite likely that if prices fall again there may be transfers back from the replacement reserve to distributable funds. There is therefore a good case for replacement reserves of this type to be included among revenue reserves.

If, on the other hand, the replacement reserve is specifically computed by reference to a capital expenditure programme, there is a case for including it under capital reserves. To the extent that the amount so set aside will be required to provide for replacement during the ensuing year, however, it would appear that a transfer should be made from the capital reserve to a revenue provision on the grounds that it represents provisions for a calculated liability maturing before the next accounts. The amount to be stated on the balance sheet in respect of contracts for capital expenditure will be correspondingly reduced.

Although the following point is not directly concerned with Mr Roberts' main argument, it may be of interest. He infers that it is customary for a replacement reserve to be debited with the cost of the assets replaced. It would be interesting to know if this practice really is common in the case of assets against which a depreciation provision has been built up. The method which I favour personally in such cases is to charge the cost of assets scrapped, or otherwise disposed of, to an assets disposals account, to which is credited the depreciation provided in respect thereof and the proceeds of sale if any. The balance of this account then represents the net profit or loss on disposal compared with the net written-down value. If a replacement reserve is maintained it is not affected by disposals, and if it is specifically computed, the method is to calculate the amount required at the end of each financial year and appropriate whatever is needed to raise the existing reserve to the new figure.

Yours faithfully,

London, EC4. A. R. ANDREW.

National Savings

SIR, – Readers will no doubt strongly endorse the appeal, in your issue of February 16th, by the President of The Institute of Chartered Accountants in England and Wales for the encouragement of small savings, because thrift is an essential characteristic of a financially healthy nation. At the same time, some of us will hope that the Council of the Institute will give some blunt advice on this matter to the Chancellor, as mere exhortations are unlikely to impress the younger generation who have grown up in an inflationary decade of full employment.

Buy today and pay tomorrow has been the profitable if imprudent policy of the post-war years which have seen the value of money fall as fast as, if not faster than, the accrual of interest.

For the not-so-small savers, the national interest and sound financial policy in many cases conflict; and not a few carry matters to the extreme of borrowing all they can from banks and other sources.

This is the very situation which was recognized when members authorized the Council to invest up to half its funds in ordinary stocks of selected companies.

Despite exhortations, thrift will not flourish in an adverse climate, unless war causes the strong rays of loyalty to pierce through the continuing inflationary gloom.

Yours faithfully,

London, W1. ANCRUM F. EVANS.

Deeper Aspects of the Economic Crisis

SIR, – I wish to comment on some of the statements made in the article 'Deeper aspects of the economic crisis' in *The Accountant* of January 12th last.

The writer suggests that Great Britain was at the height of her economic power between the years 1864 – 1914. I agree that in the 1850s and 1860s great advances were made in the industry and commerce of the country, but this prosperity was not to last until 1914.

In the last quarter of the nineteenth century, those countries, in whose markets we had previously held a monopoly, were becoming industrialized themselves, and were now able to compete with British products. As a result, our free trade policy was gradually modified from the 1880s onwards. This period also marks the growth of monopolistic practices in industry on a large scale – certain evidence that profits were not being made as easily as they had been between 1850 and 1870.

In agriculture, the development of large-scale farming in North America and Australasia coupled with the developments in railway and oceanic transport and refrigeration meant that hard times were ahead for British farming. Despite the agricultural depression which followed, the Government refused to grant adequate protection to the industry.

Mr Boulton complains that we are dependent on imports for staple foodstuffs. Food production at home is of minor importance from the economic point of view; we should concentrate our factors of production in engineering and new technical industries in which we have a relative advantage compared

with other countries. It is only for strategic reasons that we should be concerned about our home agriculture.

I do feel that from the psychological angle the exhortation to 'hard work, simple living and high thinking' would find more sympathizers in a middle-class Victorian drawing-room than among the present-day industrial working class.

The problem of production must be tackled from a more practical point of view, hence it is difficult to say whether there are too many industries catering for amusement and luxury goods. The application of the principle of division of labour causes most industrial occupations to be dull enough. If output is to be increased, there must be more incentives in the shape of cheaper consumer goods and services. Therefore, it would appear that a proportion of the available factors of production must be allowed to remain in such industries as cinemas, dance halls, greyhound racing, ice-cream, etc. If economic resources are diverted from these industries to rearmament, Government service, or other capital goods industries, the high taxation which is an essential feature of dis-inflationary budgets will have to be increased to an even greater extent, thus causing a further disincentive to increased production.

Yours faithfully,
J. H. PETER PARR, B.A.(COM.).
Stretford, Manchester.

[Mr A. H. Boulton, LL.B., A.C.I.S., writes: This all goes to show how complex the problem can become. My guess is that the proportion of national effort to be available for amusements and the like will diminish, whether we like it or not. But I cannot agree that home agriculture, still one of our greatest industries, is of 'minor importance'. The 'relative advantages' we possess in engineering compared with Germany, Sweden, Japan, Czechoslovakia, Italy and other countries are not very easy to see.]

Assessments upon Executors of a Deceased Taxpayer

SIR, – It seems a pity that 'F.C.A.' (February 23rd issue) did not specify on the notice of appeal what he thought were good grounds, i.e. that the assessment was out of date. If he had, I am sure the Inspector would have pointed out to him that for time limit purposes the date of an assessment is the date of the Additional Commissioners' certificate of assessment and this, presumably, if the date on the assessment notice were April 7th, would be prior to April 6th.

'F.C.A.' will find the procedure set out in Section 122, Income Tax Act, 1918, and paragraph 6 of the Tenth Schedule, Finance Act, 1942, which latter, he will note, enacts that:

> 'Those notices may, notwithstanding anything in subsection (2) of Section 122 of the said Act, be served at any time after signing, or signing and allowing, of the assessment'.

Yours faithfully,
Glasgow, C2. A. G. McBAIN.

House Purchase: Loans and Endowment Assurances

SIR, – It is unfortunate that Mr Elliott's article on the above subject in your issue of February 16th had to be so brief. The alternatives open to a borrower financing the purchase of a house by way of mortgage are more numerous than he suggested.

There are alternative methods of repayment available under Scheme A (Loans without endowment assurance as collateral):

(1) The repayments may be made, as noted by Mr Elliott, by equal annuity payments of principal and interest combined.

(2) The repayments may be on the instalment method; equal payments of capital together with the interest on the loan outstanding at the beginning of the relevant period.

These alternatives are open to borrowers from local authorities under the Small Dwellings Acquisition Acts. The recent increase in rates of interest chargeable on advances made under these Acts has reduced the advantage of borrowing from local authorities.

Mr Elliott points out that under Scheme B (Loans with endowment assurance as collateral) 'the value of the life cover must not be ignored'. Two principal alternatives present themselves to a borrower under Scheme A who wishes to cover the amount of the loan:

(1) A straight life assurance policy may be purchased with cover equal to the amount of the original loan. As the loan is repaid this method will provide an increasing surplus of life assurance cover over the loan outstanding.

(2) Arrangements may be made with some assurance companies in conjunction with the raising of the loan on mortgage whereby the borrower purchases a reducing risk life policy. In this case there is no surplus life assurance cover and it is truly comparable with Scheme B. Generally the life assurance premiums are payable over the first half or two-thirds of the period of the loan.

Each of these methods of financing the purchase of a house, and the alternative methods of providing life cover where required, has its own advantages and disadvantages. The relative costs and savings of each method depend almost entirely upon the financial position of the borrower and they can really only be adequately explained by an abundance of examples.

Yours faithfully,
Watford, Herts. E. B. PALMER.

[Mr P. C. Elliott writes: I did not wish to imply that there were only two methods, though the cost of these further schemes can be ascertained, using the points already given. Nevertheless, thanks are due to your correspondent for an informative letter.]

SIR, – With reference to the article on 'House Purchase' by Mr P. C. Elliott (your issue dated February 16th, 1952), it is not understood what is meant, exactly, by the phrase

'To this must be added the "cost" of restriction of the earned income relief where the gross interest paid exceeds the unearned income (which includes the net annual value of the property).'

Surely no restriction applies, as the full one-fifth is allowed on all incomes up to £2,000, irrespective of whether any interest paid exceeds one's unearned income or not. For example, a person having a salary of £1,000 per annum, and owning a house having a net annual value of (say) £30, would still be entitled to an earned income allowance of £200, whether his gross mortgage interest was either less than £30 (his only unearned income), or more than £30.

Yours faithfully,

Brockley, London, SE4. L. REYNOLDS.

[Mr Elliott writes: No, the example is incorrect, for as the interest paid is allowed as a charge, the result is that only the net income suffers tax. Your correspondent would be claiming relief on income already allowed in full.]

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases*.

New South Wales Stamp Duties Commissioner *v.* Way

In the Privy Council
December 10th, 1951
(Before Lord NORMAND, Lord OAKSEY and Lord RADCLIFFE)

Estate duty – Trust to take effect after death – Reservation of benefit – Settlor's power to direct application of income – Finance Act, 1894, Sections 1, 2 (1) (b), (d) – New South Wales Stamp Duties Act, 1920–1949, Section 102 (2) (a), (c), (d).

The deceased created a trust for charitable purposes under the heads of education, the relief of poverty in Australia, and the general benefit of the community in Australia. By clause 3 the time, manner and purpose of the application of the trust fund and income was to be 'in the absolute discretion of the trustees but during the lifetime of the settlor subject to his direction and approval'. The settlor went on to record his belief that it would be found advisable to have completely distributed the trust fund within ten or fifteen years. By clause 24, the trustees were empowered, whether during the settlor's lifetime or afterwards, to apply any trust property for the acquiring of any other property by purchase or exchange from the settlor or his executor, and this other property was to be acquired for a sum at least five per cent below its real value; during the settlor's lifetime the trustees were bound so to act if the settlor so directed.

Section 102 (2) of the Stamp Duties Act, 1920–1949, of New South Wales imposes estate duty on any property in a trust to take effect after the settlor's death, and on any property passing under a disposition made by the deceased, and containing a reservation of an interest or benefit for him during his life or for the life of any other person. Section 102 (2) also lays the duty on any property subject to a trust which is accompanied by the reservation or assurance of, or a contract for, any benefit to the deceased for his life or the life of any other person, and on any property comprised in any gift made by the deceased, of which bona fide possession and enjoyment had not been assumed by the donee immediately upon the gift, and thenceforth retained to the entire exclusion of the deceased or of any benefit to him of whatsoever kind.

It was contended for the appellant that under clause 3 of the settlement there existed a trust for one set of beneficiaries during the deceased's lifetime, and a trust for a different set of beneficiaries after his death, and that therefore there was a trust to take effect after the death; and that the power of direction in clause 24 of the trust deed was a reservation of an interest to the deceased for his life so that the case fell within Section 102 (2) of the Stamp Duties Act.

Held, (1) that there was only one trust for one group of beneficiaries, both before and after the deceased's death; and that the deceased's power of selection of beneficiaries did not affect this point; (2) that the deceased's power of direction in clause 24 was a fiduciary power, and was not an interest or benefit reserved to him; (3) that, therefore, the case was not within Section 102 (2) of the Stamp Duties Act.

In re Lyons

In the Court of Appeal
November 8th, 1951
(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS, and Lord Justice MORRIS)

Income-tax – Tax-free annuity – Repayment of tax to annuitant because of loss in his business – Whether annuitant should pay to trustees a sum equal to tax paid on account of his annuity – Income Tax Act, 1918, Section 34 – Finance Act, 1926, Section 33.

The testator bequeathed to his son an annuity of £10 a week, and there were gifts over on the son's death. In 1946–47 the son's taxable income consisted of the gross annuity of £945 9*s* 1*d*, wife's earned income £97, other income £43 11*s* 11*d*, making an aggregate of £1,086 1*s* 0*d*. In that year the trustees paid £425 9*s* 1*d* as tax on the annuity, and £4 10*s* 0*d* as tax on a dividend. For that year the son obtained repayment of £429 19*s* 1*d* under Section 34 of the

Income Tax Act, 1918, on account of a trading loss for that year of £1,027.

In 1947–48, the son's taxable income was the gross annuity of £963 12*s* 9*d*, wife's earned income £242 10*s* 0*d*, other income £12 10*s* 0*d*, less bank interest £28 18*s* 0*d*, and taxed charges £37 0*s* 8*d*, making a net aggregate income of £1,152 14*s* 1*d*. In that year the trustees paid £433 12*s* 9*d* as tax on the annuity, and £5 12*s* 6*d* as tax on a dividend. For that year the Inland Revenue repaid to the son £439 5*s* 3*d*, less £16 13*s* 4*d*, i.e. £422 11*s* 11*d*, under Section 34 aforesaid on account of a trading loss incurred by the son in that year of £1,152.

The trustees took out a summons to decide whether the son was liable to account to them, wholly or partly for the sums recovered by him under Section 34 of the Income Tax Act, 1918.

Held, that the son was liable to account to the trustees for the £429 19*s* 1*d* and £422 11*s* 11*d* as representing the tax paid in respect of his annuity for the years in question.

Mitchell *v.* C.I.R.

In the Court of Session (Inner House)
December 11th, 1951
(Before the LORD PRESIDENT (Lord COOPER)
Lord CARMONT and Lord RUSSELL)

Special contribution – Domicile in U.K. – Ordinary residence and domicile in U.K. for ten years till 1947 *followed by domicile in Bermuda – U.K. domicile for seven months in* 1947–1948 – *Finance Act*, 1948, *Section* 47.

The appellant was ordinarily resident and domiciled in the United Kingdom for more than ten years up to November 1947, when he took up permanent residence in Bermuda, and ceased to be resident or ordinarily resident in the United Kingdom. The Special Commissioners found that he acquired a domicile of choice in Bermuda in that month.

It was contended on behalf of the appellant that he was exempt from the special contribution inasmuch as in the year 1947–48 (i.e. from November 1947 to April 1948) he was not domiciled in the United Kingdom, and that, therefore Section 47 (3) of the Finance Act, 1948, applied. It was contended on behalf of the respondents that the appellant was not exempt because (i) in 1947–48 (i.e. from April to November 1947) he was domiciled in the United Kingdom, (ii) he was ordinarily resident here in that year, and (iii) he had been resident throughout the period of ten years ending with that year.

The Special Commissioners held that to qualify for exemption it was necessary for the appellant to establish affirmatively that in the year 1947 he was not domiciled in the United Kingdom; and that he was unable to do so, as he was so domiciled for seven months of that year. They also held that his claim must fail on the other ground that he was resident in the United Kingdom in 1947–48, and had been ordinarily resident therein 'throughout the period of ten years ending with the year 1947–48'. The Special Commissioners were of the opinion that the words quoted were to be construed as the fiscal year 1947–48, and the preceding nine fiscal years.

Held, that the Special Commissioners' decision on the first point was correct, and that the appellant could not claim exemption from special contribution.

C.I.R. *v.* City of Glasgow Police Athletic Association

In the Court of Session (Inner House)
December 19th, 1951
(Before the LORD PRESIDENT (Lord COOPER)
Lord CARMONT and Lord RUSSELL)

Income-tax – Charity – Trade – Athletic and recreational association for police force – English and Scots law – No evidence of English law – 43 *Elizabeth, c.* 4 *(Charities) – Income Tax Act*, 1918, *Section* 37 (1) (*b*) – *Finance Act*, 1921, *Section* 30 (1) (*c*).

The association was formed in 1938 for the purpose of co-ordinating the athletic and sporting activities of the members of the City of Glasgow Police Force, and its object was the encouraging of all forms of athletics, sports and general pastimes. At first membership was compulsory for all new entrants to the force, but since 1948 it has been voluntary. The membership covered 85 per cent of the police force, and included all recruits since 1948. The association was administered by members of the force, and all decisions had to be approved by the Chief Constable. The serving members paid a weekly subscription, and ex-members an annual subscription.

Every year the association organized an open amateur sports meeting for the purpose of raising funds for its members. For the period to September 30th, 1950, the total revenue was £2,778, including £1,225 from members' subscriptions and £1,214 from the surplus of the annual sports meeting. The Special Commissioners decided that the activities of the association increased the efficiency of the police force, and that this increased efficiency conferred direct benefits on the public. They held, therefore, that the association was a charity, and was entitled to exemption from tax on the £1,214.

Held, that as there was no evidence of the English law of charities, and as that law had altered since the decision of the House of Lords in *Special Commissioners v. Pemsel*, the Court of Session was not able to pronounce an opinion upon the correctness of the Special Commissioners' decision. The appeal was accordingly dismissed.

Rankine *v.* C.I.R.

In the Court of Session (Inner House)
January 11th, 1952
(Before the LORD PRESIDENT (Lord COOPER)
Lord CARMONT, Lord RUSSELL and Lord KEITH)

Income-tax – Partnership – Cash basis – Cessation of business – Receipts after cessation – Whether such

receipts assessable – Income Tax Act, 1918, *Schedule D, Cases II, III, VI; General Rule* 18 – *Coal Act,* 1938, *Section* 7.

The appellants practised the profession of civil and mining engineers in partnership, and on July 11th, 1944, it was decided that the firm should be wound up as at that date. A liquidator was appointed in the following October, and an account was prepared as at July 11th, 1944. The previous accounts of the appellants had been on the cash basis, and that was also the basis for the account to July 11th, 1944, and assessments were made accordingly.

For some years prior to the dissolution of the firm they were engaged in part upon valuations under the Coal Act, 1938, and a considerable part of the fees thus earned, and due at July 11th, 1944, were not received until after that date. The Inland Revenue made additional assessments on the appellants for 1942–43, 1943–44, and 1944–45, these assessments being made on the earnings basis.

The General Commissioners decided that the proper basis for assessment for 1942–43 to 1944–45 was the actual earnings for work done on the one hand, and outlays incurred in those years, as distinct from cash received and cash paid out.

Held, that the assessments for 1942–43 and 1943–44 were not competent, but that an assessment could be made for the period from April 6th to July 11th, 1944, on the earnings basis, i.e. in such a sum as represented the full amount of the appellants' profits and gains arising or accruing to the firm in respect of that period.

G. Deacon & Sons *v.* C.I.R.

In the High Court of Justice (Chancery Division)
January 11th, 1952
(Before Mr Justice DONOVAN)

Excess profits tax – Income-tax – Back duty – Appeal – Decision that partnership profits understated – Whether finding justified – Income Tax Act, 1918, *Section* 137 (4).

Until 1947 the appellant and his father carried on business in partnership as hosiery manufacturers, and the profits averaged, between 1929 and 1943, about £1,553 a year. In 1943 each partner paid £1,500 into the business, and the Inspector of Taxes inquired where that money had come from. Eventually the existence of £29,000 was disclosed. In February 1947 the father died. Assessments to excess profits tax and income-tax covering the years 1939 to 1944 were made on the footing that the £29,000 represented untaxed profits of the partnership business. An appeal against the assessments was heard by the General Commissioners in January 1947, and apparently the only evidence adduced against the assessments was that the auditors' accounts were correct, and that the business transactions had been properly recorded in the books. The General Commissioners decided that the profits of the business had been understated, and that the amount understated was £28,000. Later this sum was apportioned over the years under appeal and no exception was taken to the apportionment as such.

Held, that there was evidence to justify the General Commissioners' decision.

Faulconbridge *v.* National Employers' Mutual General Insurance Association Ltd

In the High Court of Justice (Chancery Division)
January 11th, 1952
(Before Mr Justice UPJOHN)

Income-tax – Insurance company – Mutual insurance – Policy-holders as members of association – No bonuses declared – Continuous change of membership – Large reserve fund – Uncertainties as to future – Whether mutual insurance being carried on – Income Tax Act, 1918, *Schedule D, Case I – Finance Act,* 1933, *Section* 31.

The Association was incorporated in 1914 under the Companies Act, 1908, as a company limited by guarantee. Its original object was to provide for the mutual insurance of its members against employers' liability and workmen's compensation. In 1921 the Association's constitution was altered so as to enable it to carry on all other kinds of insurance of its members, except life assurance. Every policy-holder had to be a member of the Association, and on ceasing to be insured with the Association he ceased to be a member. A valuation was made every three years, and the profits of the Association were ascertained department by department. Out of the profits the directors placed such sums as they thought fit to reserves for meeting contingencies and for other purposes. Subject thereto the directors could, with the sanction of a general meeting, divide the surplus of each department for the last three years among the members insured in that department, in proportion to their surplus premiums. The directors had power to declare interim bonuses. The surplus in any department in a winding-up was distributable among the members insured in that department, in such proportions as should be certified by an actuary to be fair and just.

It was contended on behalf of the appellant: (1) that not every policy-holder had a voice in the administration of the Association; (2) that not every policy-holder was entitled to a share in the assets prior to a winding-up; (3) that not every policy-holder was liable to contribute further funds in the event of losses. The Inland Revenue also contended that the Court should look not merely at the constitution of the Association, but at the way in which it had in fact conducted its business, and it was contended that since 1921 the Association had been operating as a trading company for the purpose of making profits for its members. It was admitted that it was immaterial that the Association was an incorporated company.

Held, (1) that it was not essential that every policy-holder should be entitled to a share in the assets prior to a winding-up, and that all that was necessary was that any surplus should ultimately go back to the contributors in a winding-up or otherwise; (2) that it was not necessary that the members should be bound to make losses good; and that all that was required was that there should be a common fund which was to be liable for losses; (3) that the facts did not support the contention that the conduct of the business demonstrated that the Association was not a mutual business.

C.I.R. *v.* Bell & Nicolson Ltd

In the High Court of Justice (Chancery Division)
January 16th, 1952
(Before Mr Justice DONOVAN)

Profits tax – Distribution – Dividend from capital assets – Whether a distribution – Finance Act, 1936, *Section* 21 (3) – *Finance Act*, 1938, *Section* 40 – *Finance Act*, 1947, *Sections* 30, 34, 35, 36.

In 1947 the respondent paid a dividend of £5,625 out of the surplus which arose from the realization of certain investments, and which was not liable to income-tax or profits tax in the hands of the company. The Inland Revenue treated the dividend as a distribution to be taken into account in considering the amount of non-distribution relief due to the company for the chargeable accounting period ended December 31st, 1947. The company contended that as the £5,625 was paid otherwise than out of trading profits, it was not a distribution for profits tax purposes. The General Commissioners decided in the respondent's favour.

Held, that the £5,625 was a distribution, which had to be taken into account in computing the amount of non-distribution relief for the chargeable accounting period in question.

Golder *v.* Great Boulder Proprietary Gold Mines Ltd

In the High Court of Justice (Chancery Division)
January 15th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Sales of shares in companies – Promotion of companies – Legal proceedings to recover damages – Settlement of action – Whether sum paid deductible for tax purposes – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*a*).

The respondent sold to a new company shares in an Australian gold-mining company and also a gold-mining reservation in Australia. The respondent had recently bought these assets from another company, and on the purchase and resale had made a profit of £10,000, which was brought into account as a trading receipt for tax purposes. Later the respondent sold to another new company shares in another Australian gold-mining company, and on this sale the respondent made a profit of £17,500, and that sum was also brought in as a receipt for tax purposes.

Later the respondent sold other shares in gold-mining companies to another new company, and also sold to the new company options to take further shares. The respondent promoted the first two new companies and took part in the promotion of the third. Legal proceedings were instituted against the respondent and other persons for the recovery of damages on the footing of allegations against the contents of the prospectuses. The respondent was advised that it should, if possible, settle the action, and eventually the respondent paid £25,000 for that purpose, and it incurred £2,500 in costs.

The respondent claimed to be entitled to deduct the £25,000 and the costs in computing its profits for tax purposes. The Special Commissioners found that the promotions formed part of the respondent's trade, and that the £25,000 and the costs were wholly and exclusively expended for the purposes of the trade, and therefore deductible in computing the respondent's profits for tax purposes.

Held, that the Special Commissioners' decision was correct.

Orchard Wine and Supply Co *v.* Loynes

In the High Court of Justice (Chancery Division)
January 17th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Sale of trading stock – Subsequent sale of secret formula, trade-mark and goodwill – Whether sum received for latter a trading receipt.

By a document called an assignment the appellants assigned a secret formula for the making of whisky, and also a trade-mark and the goodwill of the business to another company. The appellants had previously transferred to an agent of the other company their stock of ingredients for the making of the whisky. The assignment provided that 'for the consideration hereinafter appearing' the appellants, as beneficial owners, assigned the three assets to the purchaser company, and after reciting the sale of the ingredients the document provided that the purchaser should pay a commission to the appellants for every dozen bottles of whisky manufactured from the ingredients. The commission was to be payable not later than January 1st, 1943, and it was so paid. The sum paid was £2,520, and the stamp duty on the assignment, £25 10*s*, was shared between the parties.

The Inland Revenue included a sum of £2,507 10*s*, namely, the £2,520 less half the stamp duty, in the appellants' income-tax computation for the year under appeal. It was contended on behalf of the appellants that the £2,507 10*s* was a capital receipt.

Held, that the £2,507 10*s* was a trading receipt, as it was a part of the receipts from the trading transaction consisting of the manufacture of the whisky from the ingredients transferred by the appellants.

LEICESTERSHIRE AND NORTHAMPTONSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

JUBILEE DINNER IN LEICESTER

The Leicestershire and Northamptonshire Society of Chartered Accountants held their jubilee dinner at the *Grand Hotel*, Leicester, on Friday, February 29th, 1952. Mr T. Fleming Birch, F.C.A., President of the Society, was in the chair, and with Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, received the 157 members and guests who attended.

Among those present were Alderman F. E. Oliver, T.D., Deputy Lord Mayor of Leicester; Councillor Frank Lee, J.P., B.A., B.SC., Mayor of Northampton; Mr Cyril Osborne, J.P., Member of Parliament for Louth; Sir Robert Martin, C.M.G., M.A., T.D., D.L., J.P., Chairman of the Leicestershire County Council; The Very Reverend H. A. Jones, B.SC., The Provost of Leicester; and

Alderman Geoffrey Barnett (*Clerk to the Commissioners of Income Tax*); Messrs E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); G. D. F. Dillon, B.A., F.C.A. (*President, London and District Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*); E. J. F. Fortune (*Editor, 'Leicester Mercury'*); W. B. Frearson (*Vice-President, Leicester Law Society*).

Mr W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); Councillor W. J. H. Harris, F.S.A.A. (*President, Northampton Chamber of Commerce*); Messrs D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); Anthony Herbert, A.R.I.B.A. (*President, Leicestershire and Rutland Society of Architects*); M. Wheatley Jones, B.COM., F.C.A. (*President, Manchester Society of Chartered Accountants*); A. F. Kent, F.C.A. (*President, East Anglian Society of Chartered Accountants*).

Messrs A. H. W. Kimberlin (*President, Leicester and County Chamber of Commerce*); T. E. G. Lang (President, Institute of Bankers, Leicester Centre); D. J. Lyon, A.C.I.I. (*President, Insurance Institute of Leicester*); A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*); O. K. Murray, F.R.I.C.S., F.A.I. (*President, Leicester Auctioneers and Estate Agents' Association*); H. Musker (*H.M. Principal Inspector of Taxes*); C. R. Riddington, F.S.A.A. (*Honorary Secretary, Leicestershire and Northamptonshire Society of Incorporated Accountants*); Dr Elfed Thomas, B.SC., PH.D. (*Director of Education, City of Leicester*).

An Economic Blizzard

The toast of 'The Trade and Commerce of Leicestershire and Northamptonshire' was proposed by Mr D. J. Hadley, F.C.A., President, Birmingham and District Society of Chartered Accountants; Alderman F. E. Oliver, T.D., Deputy Lord Mayor of Leicester, and Councillor Frank Lee, J.P., B.A., B.SC., Mayor of Northampton, replied.

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Cyril Osborne, J.P., M.P., who said:

'We, as traders and you gentlemen, as the financial figure advisers of traders, are facing the greatest economic blitz and blizzard this country has ever known in its long history.

'Members of the Institute of Chartered Accountants will have a very large part to play in the coming difficult years when trade and industry faces a blizzard that will make 1921 look like a Sunday school party – and we shall look to you gentlemen to meet us as far as you can to give good service to trade and industry.'

In the course of his answer to the toast, Mr C. W. Boyce, C.B.E., F.C.A., President, The Institute of Chartered Accountants in England and Wales, said:

'Since I entered on my year of office as President of the Institute I have preached on more than one occasion on the appalling dangers of uncontrolled inflation and those dangers must be brought home to the great mass of the community, many of whom I fear have not the remotest idea what runaway inflation would mean to them. This is no time for complacency and the Government and all of us must do everything in our power to make the ordinary man-in-the-street realize that it is up to him, whatever his circumstances may be, rich or poor, and whatever his occupation, to play his part in a great national effort.

'This old country of ours can get on its feet again if everyone pulls his weight but there must be no slacking. Greater production is required and that means longer hours, but surely the extra effort is worth while. Owing to our rising costs of production an increase in the volume of exports becomes more and more difficult as there are definite signs of price resistance abroad and particularly in the countries where our exports produce the most valuable return, but increased production and elimination of restrictive practices in all spheres can do much to lessen the costs of our products.

The Accountant and Management

'In this sphere the accountant can serve management to an important extent. As a professional accountant and auditor he acquires during the course of his audit, wide knowledge of his client's business and can often make suggestions for the improvement of the form in which statistical information is presented to the management, thereby giving a pointer to directions in which extravagances can be eliminated and more control exercised over general administration.' (Applause)

Speaking of the chairman, Mr Boyce continued:

'This is not the first time Mr Fleming Birch has occupied the position of President of the Leicestershire and Northamptonshire District Society, for I see that in 1927, twenty-five years ago, he presided over your destinies. . . .' (Loud applause.)

The toast of 'Our Guests' was proposed by Mr G. L. Aspell, T.D., D.L., F.C.A., and acknowledged by Sir Robert Martin, C.M.G., M.A., T.D., D.L., J.P.

The toast of 'The Leicestershire and Northamptonshire Society of Chartered Accountants' was proposed by Mr Derek du Pré, Editor of *The Accountant*.

In his reply, Mr Fleming Birch paid tribute to the energy and hard work of Mr Eric E. Dudley, A.C.A., the honorary secretary, which had resulted in so enjoyable a dinner.

During the afternoon Mr Boyce had been welcomed by Mr E. C. Corton, F.C.A., President of the Leicester and Northampton Chartered Accountant Students' Society, and by Mr G. C. Allman, A.C.A., chairman of the Society, at tea with the students.

Mr Boyce addressed the members on a wide variety of subjects of particular interest to those studying for their examinations and answered many questions.

NOTES AND NOTICES

Personal

MESSRS LITTLEJOHN, WILSON, MCKNIGHT & Co, Chartered Accountants, of 15 Cullum Street, London, EC3, announce with regret the death, on February 21st, 1952, of Mr MALCOLM HAMILTON BALMFORTH, F.C.A., for many years a partner in the firm. The practice will be continued under the same name by the remaining partners.

MESSRS HILDITCH & YOUNG, Chartered Accountants, of Barclays Bank Building, Oldhall Street, Liverpool, 3, announce the admission to partnership as from January 1st, 1952, of Mr D. J. HADFIELD, A.C.A., who has been connected with the firm for 25 years. The firm's name will remain unchanged.

MR CLIVE GILDON, Chartered Accountant, of 84 Borough Road, Middlesbrough, announces that as from December 1st, 1951, he has admitted into partnership Mr CLIFFORD JAMES EKE, Chartered Accountant, of Newcastle upon Tyne. The practice will be conducted from the same address in future under the title of Clive Gildon & Co.

MESSRS LEVER, HONEYMAN & Co, Chartered Accountants, of 9 Basinghall Street, London, EC2, announce with regret the sudden death of Mr DAVID LIVINGSTONE HONEYMAN, C.A., senior partner of the firm, at his house, 'The Wyllies', Cuckfield, Sussex, on Friday, February 29th.

MESSRS W. G. A. RUSSELL & Co, and MESSRS J. DURIE KERR, WATSON & Co, who have hitherto conducted their joint practices under separate firm names at 12 and 5 Waterloo Street, Birmingham, respectively, announce that they have removed their offices to Lombard House, Great Charles Street, Birmingham, 3 (Telephone: Central 4846), and that in future the practices will be conducted under the combined firm name of RUSSELL, DURIE KERR, WATSON & Co. They also announce that as from January 1st, 1952, they have taken into partnership Mr N. S. SMART, A.S.A.A., who has been in the employment of MESSRS J. DURIE KERR, WATSON & Co, for the past twenty-six years, and Mr R. M. BACKHOUSE, A.C.A., who will be in charge of their London Office at 10–12, Copthall Avenue, EC2. Telephone: Monarch 2810.

Obituary

BERNARD ARTHUR BATES, M.C., F.C.A.

We have learned with regret of the death on February 29th of Mr Bernard Arthur Bates, M.C., F.C.A., a partner in the firm of Boyce, Welch & Co, Chartered Accountants, of Bradford and London.

Mr Bates, who was 63, was articled to Mr Charles W. Boyce, C.B.E., F.C.A.; he was admitted an Associate of the Institute in 1911 and elected a Fellow in 1925. He served in the Yorkshire and Lancashire Regiment during the 1914–18 war and was awarded the M.C. at the battle of Loos. At the end of the war he rejoined Messrs Boyce, Welch & Co at Bradford, as a partner, and in 1933 was elected president of the Leeds, Bradford and District Society of Chartered Accountants – he was a member of the Society's committee at the time of his death.

An active member of the Yorkshire Ramblers' Club in his younger days, he retained his interest in the Club in later years by acting as treasurer.

In Parliament

FARMING INCOMES

Mr HURD asked the Chancellor of the Exchequer if his attention has been drawn to the invalidity of the comparison of farmers' incomes in 1939–40 and 1949–50 made in Table 53 of the 94th Report of the Commissioners of Inland Revenue, having regard to the fact that farmers paid income-tax in 1939–40 on Schedule B rental assessments and not on Schedule D as in 1949–50; and if he will arrange for more adequate figures to be published in future.

Mr BOYD-CARPENTER: Table 53 of the 94th Report of the Commissioners of Inland Revenue to which my hon. friend refers, relates, as the heading of the table indicates, to assessments under Schedule D. It does not relate to total farming income. This point was clearly brought out in paragraph 94 of the 92nd Report; the Report in which these figures were published for the first time. To avoid misunderstanding however, the note will be repeated in future Reports.

Figures for total income from farming in 1938 and in the post-war years are to be found in the National Income White Papers.

Hansard, Feb. 25th, 1952. Written Answers. Cols. 104–5.

PROFITS: TAX INVESTIGATIONS

Mr HOUGHTON asked the Chancellor of the Exchequer how many of the 7,937 investigations into under-assessment of profits for the four years 1948 to 1951 inclusive, Command Paper No. 8436, were the subject of criminal proceedings.

Mr R. A. BUTLER: The figures in the table in Cmd. No. 8436 to which the hon. member refers relate to cases where a pecuniary settlement was effected because they were not thought suitable for criminal proceedings.

Hansard, Feb. 26th, 1952. Written Answers, Col. 118.

MARRIED PERSONS: TAX ALLOWANCE

Mr WOODBURN asked the Chancellor of the Exchequer whether he will assure those intending to be married before the end of the financial year that their rights to repayments of income-tax, on account of their marriage, will not be affected by his earlier presentation of the Budget.

Mr R. A. BUTLER: The higher personal allowance for married persons for the income-tax year of assessment 1951–52 has already been prescribed by the

Finance Act, 1951, and applies to persons married on or before April 5th next. It will not be affected by the early date on which the Budget proposals for the following year will be presented.

Hansard, Feb. 26th, 1952. Written Answers. Col. 118.

EXCESS PROFITS TAX

Mr LEWIS asked the Chancellor of the Exchequer when he anticipates introducing his scheme for excess profits tax; and whether he will include a tax on company dividends.

Mr BOYD-CARPENTER: It has already been announced that the new excess profits tax will have effect from January 1st, 1952; for the rest, I cannot anticipate my right hon. friend's Budget statement.

Hansard, Feb. 28th, 1952. Written Answers, Col. 173.

ESTATE DUTIES: SMALLER FIRMS

Sir W. WAKEFIELD asked the Chancellor of the Exchequer what action he proposes to take on the memorandum from the National Union of Manufacturers, dated December 17th, 1951, urging full public inquiry into the disintegrating effect of the liability to estate duty on smaller and medium-sized manufacturing concerns, and some immediate measure of relief pending the result of such inquiry.

Mr BOYD-CARPENTER: My right hon. friend is not at present in a position to make a statement on this matter.

Hansard, Feb. 28th, 1952. Written Answers, Col. 174.

POST OFFICE SAVINGS ACCOUNTS: INTEREST RATE

Mr A. LEWIS asked the Assistant Postmaster-General if he will increase the interest rate on Post Office savings accounts in a similar manner to the recently announced increased bank rate.

Mr GAMMANS: No. Money deposited in the Post Office Savings Bank is virtually on call and a higher rate of interest is not justified. The rate has remained unchanged at 2½ per cent since 1861.

Hansard, Feb. 29th, 1952. Written Answers, Col. 214.

The Institute of Chartered Accountants in Ireland

The Council of the Institute of Chartered Accountants in Ireland announces that the next Intermediate and Final examinations will be held on May 6th, 7th, 8th and 9th, 1952, in Dublin and Belfast.

Intending candidates should send in their applications on or before April 1st, 1952. Forms of application can be obtained from the Secretary, 7 Fitzwilliam Place, Dublin.

National Health Service Accounts for Scotland

AUDITOR-GENERAL'S REPORT

This report,[1] of the Comptroller and Auditor-General deals with the accounts for 1950–51 of (*a*) the five regional hospital boards administering the hospital and specialist services in Scotland on behalf of the Secretary of State, and the 85 boards of management engaged in the control and management of the hospitals on behalf of the regional hospital boards; (*b*) the 25 executive councils administering the general medical, dental, pharmaceutical and supplementary ophthalmic services in Scotland; and (*c*) the Scottish Dental Estimates Board. The accounts of the boards and councils are audited by the Accountant-General of the Department of Health for Scotland and the summarized accounts by the Comptroller and Auditor-General, who may also examine the accounts and records of individual boards and councils.

The total expenditure on revenue account amounted to £27,633,144, of which the larger part, £22,703,029 was for hospital running costs. In 1949–50, the corresponding figures were £24,439,627 and £19,973,416. Expenditure on capital account was £1,906,538 against £1,582,641 in 1949–50.

Hospital running costs attributable to beds and in-patients are classified in three groups: (1) maintenance of patients (analysed by patient days only); (2) general hospital expenditure (analysed by a combination of patient days and staffed bed days); and (3) overheads (analysed by staffed bed days only). The total cost shows an increase over 1949–50 of £2·7 million. Of this about £570,000 in respect of group (1) is attributable to an increase of 1,100 – 2 per cent – in the average number of patients and also to a rise in commodity prices: about £1·5 million in respect of group (2) to a variety of factors, principally salary and wage increases, larger staffs, rising prices, and to a small increase of 250 in the average number of staffed beds, and £600,000 in respect of group (3), mainly attributable to increases in salary and wage rates. The composite occupied bed-day rates show increases for every type of hospital, the average increase for all types being from 18*s* 4*d* to 19*s* 8*d*. The average out-patient rate also shows an increase from 4*s* 3*d* to 4*s* 8*d* per attendance.

The report comments upon a number of weaknesses in the financial and accounting arrangements, including inadequate proof of payment of salaries, wages and national insurance contributions; insufficiency of internal check on the compilation of wages; loss of £850 by defalcation, failure of hospitals

[1] H.M.S.O. 1*s* 0*d*.

to maintain adequate store accounts and inventories; stock-taking deficiencies not recorded as losses; losses of linen amounting to £1,450 for six months not recorded; losses on market gardens etc.

London and District Society of Chartered Accountants

The final lecture in the series on prospectuses will be given at a meeting of the Society on Tuesday next, March 11th, at 6 p.m. in the Oak Hall of the Institute. The speaker will be Mr Lewis G. Whyte, F.F.A., the title of the address being 'The institutional investor's approach to a prospectus'.

The Chartered Accountants' Hockey Club

MEMBERS *v.* ARTICLED CLERKS

The articled clerks reversed last year's decision by winning the annual match at Purley on Wednesday, February 27th, by 2 goals to 1.

Both sides were evenly matched and the game was keenly contested at a fast pace throughout. The articled clerks' forward line was more effective in the goal-mouth and the members' goal-keeper, R. B. A. Howle, was kept busy. At the end of the first ten minutes, R. A. Myers, the articled clerks' inside-right, broke through and scored. The members then took the offensive but missed two chances in the circle.

In the second half, the articled clerks rushed the members' defences repeatedly, with R. L. Bristow, the left-wing, creating a number of openings. From one of these movements, R. A. Myers scored again. The members retaliated strongly and D. B. Jacques, the articled clerks' goal-keeper saved four 'possibles' in quick succession. Finally, C. H. Dale found an opening and scored. The game ended with the articled clerks attacking strongly but the defences held by I. Liddington and A. W. Coleman were not pierced again.

The results of these annual matches to date are: members 1, articled clerks 1.

The sides representing the members and articled clerks were as follows:

MEMBERS. – *Goal:* R. B. A. Howle (*Beckenham*). *Backs:* A. W. Coleman (*Crostyx*), I. Liddington (*Reigate*). *Halves:* J. C. Skeffington (*Surbiton*), R. E. Wray (*Colchester*), W. L. Rowland (*Purley*). *Forwards:* J. D. Liggatt (Captain) (*Broxbourne*), R. J. Brown (*Purley*), C. H. Dale (*Old Kingstonians*), E. C. Harris (*Blueharts H.C.*), E. H. Head (*Burgess Hill*).

ARTICLED CLERKS. – *Goal:* D. B. Jacques (*Dulwich*). *Backs:* P. C. Kay (Captain) (*Hampstead*), P. H. Russell-Smith (*West Herts*). *Halves:* R. de C. du Mee (*Dodo H.C., Mauritius*), D. G. Rigden (*Beckenham*), S. J. Titcomb (*Burgess Hill*). *Forwards:* R. A. Myers (*Beckenham*), I. R. Inglis (*Richings Park*), R. L. Bristow (*Hampstead*), R. V. Luck (*Beckenham*), R. G. Cooper-Parry (*Derby H.C.*).

The Canadian Institute of Certified Public Accountants

We are informed by Mr Eric Oswald, C.P.A., that the first annual meeting of The Canadian Institute of Certified Public Accountants was held at The Royal York Hotel, Toronto, on October 18th, 1951. The first president is Mr Harold J. Cornish, C.P.A., and the secretary is Mr W. K. Gibb, B.COM., C.P.A., F.C.I.S.

The Profits Tax Acts

The first supplement to this publication is now obtainable (price 2*s* 6*d* net) from H.M. Stationery Office. It is prepared on the same lines as the familiar annual supplements to *The Income Tax Acts* and is designed to be inserted in the 1950 loose-leaf edition of *The Profits Tax Acts*.

The Institute of Cost and Works Accountants

In the brief account of their annual dinner sent to us by the Sheffield and District Branch of The Institute of Cost and Works Accountants, and published in our last issue, it was stated that Mr A. W. Muse, F.C.W.A., F.A.C.C.A., said that the Institute's new management accounting qualification would be open, *chiefly* by examination, to members of other professional bodies. We have been asked to make it clear that it will be *only* by examination, with evidence of satisfactory experience, that the qualification may be gained.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF MARCH 10TH, 1877

From 'Notes in Passing'

New Bankruptcy Bill

Our readers will doubtless have noticed that the Lord Chancellor has laid on the table of the House of Lords a Bill to amend and consolidate the law relating to Bankruptcy. In moving its first reading, his lordship said that when the Bill was printed and in the hands of members a more convenient opportunity would arise for stating its provisions, and the respects in which it differed from the Bill on the same subject which passed their lordships' House last Session. It is satisfactory to learn that the new Bill does not contain precisely the same features as did the abortive measure of 1876. It would be still more satisfactory to know to what extent the new elements owe their origin to the energetic efforts put forth, both in this journal and elsewhere, to engraft upon the legislative mind a true notion of the issues involved in Bankruptcy law.

The Accountant

ESTABLISHED 1874

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CONTENTS

THE BUDGET

BEFORE the Budget speech on Tuesday it was generally said that the rough measure of a stern Budget would be whether the CHANCELLOR touched the food subsidies. In the event, MR BUTLER has severely axed them – but he has not thereby automatically justified the generalization that he has thus given the country a strong dose of fiscal medicine.

Behind the widely held view that there might be, and indeed that there should be, a cut in the subsidies lies an economic situation which has to be stated at the outset in order to get MR BUTLER's Budget into correct perspective. The emergency measures which he introduced towards the end of last year were aimed at immediately cutting imports and at switching part of the capital investment programme into the export drive. This would bring succour at once, it was hoped, to the balance of payments position and would also reduce the strain on the nation's resources at a time when the defence programme must be stepped up. If a disinflationary Budget were to be forthcoming in March it would be necessary to reduce still further the strain on the nation's resources since purchasing power was clearly competing for a shrinking supply of consumer goods. Reducing the investment programme in order that the machinery and equipment so released could be exported was a species of mortgage on the newly-formed capital assets of the nation. This was a dangerous procedure, so ran the argument, and further economies must come in the form of cuts in civilian consumption. No additional aid must be expected from reduced non-military investment or from fortuitous delays in the defence programme. Hence the significance of cuts in the subsidies. Here was where the cuts (estimated in some quarters to be necessary altogether to the tune of £100 million) might come.

This central issue of how to reduce the strain on the nation's resources, at the same time carrying out ambitious export and defence programmes, is the core of the Budget problem for 1952–53. It accounts for the fact that the actual fiscal outcome of the financial year now coming to a close has been rather taken for granted both before and after Budget day. It also accounts for the paradox that although the CHANCELLOR was clearly going to have a large surplus from 1951–52, that fact could be of comparatively little consolation to him. Rarely before can the reward of fiscal prudence have been merely so partially relevant. Few Chancellors can have had the duty of writing off a conventional Budget surplus of £366 million as no more than a starting point to the Exchequer problems of the incoming financial year.

The CHANCELLOR faced a critical, chronic problem on Tuesday and its solution coloured his whole approach to the fiscal year

1952–53. He must stop the run on the gold reserve, thus saving the value of the pound.

His framework for the problem and its solution can be summarized as follows. He starts from his estimate that this country's balance of payments position must be improved to the extent of £600 million in the new financial year compared with 1951–52. He relies on the terms of trade and invisible earnings to make an additional contribution between them of £200 million. This leaves £400 million. By drawing on stocks already in this country he expects to have to find only £150 million from import cuts. A further £50 million is to come from increased exports and £200 million worth of goods are to be diverted from home consumption. This last amount is therefore the size, measured in money, of the switch of resources from home markets to meet the external crisis.

There is a further drain, however. The defence programme is expected to take a further £200 million of home resources, making £400 million in all. How is this gap to be made good, for the extent to which it remains is the measure of inflation? This is the kernel of the Budget. MR BUTLER expects £250 million of it to come from higher production, £50 million from economies in Government expenditure and £100 million from further cuts in the investment programme. This last is to be achieved by the increase in Bank Rate to 4 per cent. The cuts in Government outlay are already accomplished on paper. The higher output is to come from increased supplies of American steel and from his tax incentive scheme.

It will be noticed that if these figures are achieved there is no inflationary gap – provided there are no further advances in wages and salaries. The job will have been done without touching the amount of purchasing power in the hands of the public. It is a clever solution if it works. Not everyone will agree with the CHANCELLOR, however, that output will go up by so much as £250 million. Others will look askance at a further slice coming off the investment programme.

Much obviously depends on the results of the tax incentives scheme and it is round this innovation that the tax changes revolve. The actual changes are given in the second section of this article. It is within this framework that the cuts in the food subsidies fall into place. The new excess profits levy will give a net £100 million in a full year but its contribution to revenue this year is negligible.

By cutting the subsidies by £160 million to £250 million the CHANCELLOR puts something like 1*s* 6*d* a week per head on the nation's food bill. But he has put much of it back where it is most necessary in the form of higher outlay on the social services – £80 million in fact. By raising the tax on petrol and other hydrocarbon oils he takes in £66 million and expects to raise a further £10 million from post office receipts. This gives him a total of £156 million. The various income-tax concessions are expected to cost £180 million, thus leaving a debit balance of £24 million. Thus the nation has exchanged a food subsidy system falling to the benefit of rich and poor alike for a series of more equitable reliefs in income-tax and higher payments to pensioners, the disabled and the like.

This debit is not an overall Budget deficit, of course. It is merely an overspending beyond the economies on the subsidies. By keeping the main framework of taxation much the same as last year the CHANCELLOR can reckon to obtain a surplus of similar dimensions to 1951–52. Before the CHANCELLOR starts to make tax changes he can in fact look forward to a surplus of something like £538 million on the usual conventional calculations.

The cut in the subsidies has in effect been made the occasion for a tidying up process on the gradations of income-tax. So far as the new profits levy is concerned, it has also been made an opportunity for increasing the complexity of profits taxation.

No one will deny that MR BUTLER's first Budget has been a most astute amalgam of economic sense and political sagacity. The way in which the new levy has been presented as a measure against profiteering, and the appeal of tax exemption to some and relief to others as a coating to the pill of lower food subsidies, must command respect. From the wider point of view, the CHANCELLOR has clearly given away a known quantity of relief to the general public in exchange for a quite incommensurable increase in production and a further mortgage on future industrial efficiency. For he would be a bold man who would say that the new incentives to output will yield a

definite amount of return or that a given increase in Bank Rate will produce a preconceived level of cuts in investment. There is on the other hand a refreshing touch about the ideas behind the tax changes and a faith in a measure of freedom in a critical year.

THE BUDGET AND TAXATION

The following is a brief summary of the major taxation proposals of the Budget:

DIRECT TAXATION

Income Tax

(i) Higher (married) personal allowance to be increased from £190 to £210.

(ii) Lower (single) personal allowance to be increased from £110 to £120.

(iii) Child allowance to be increased from £70 to £85, with an income limit of £85 for each child, instead of £70.

(iv) Earned income relief to be increased from one-fifth to two-ninths, the maximum allowance being raised from £400 to £450.

(v) The band of income chargeable at 3*s* in the £ to be increased from £50 to £100.

(vi) The band of income chargeable at 5*s* 6*d* in the £ to be reduced from £200 to £150.

(vii) The next £150 of taxable income to be charged at 7*s* 6*d* in the £ instead of at the standard rate.

(viii) Earned income relief to be granted on unearned incomes not exceeding £250 which do not qualify for age relief, with marginal relief for incomes exceeding £250. Exemption and marginal exemption to be withdrawn.

(ix) Profits tax (and excess profits levy) in respect of periods after 1951 not to be deductible in arriving at income-tax profit.

Profits Tax

(as from January 1st, 1952)

(x) Profits tax on undistributed profit to be reduced from 10 per cent to 2½ per cent.

(xi) Profits tax on distributed profit to be reduced from 50 per cent to 17½ per cent.

(xii) The allowance for directors' remuneration to be increased where there are two or more working directors.

Excess Profits Levy

(as from January 1st, 1952)

(xiii) Excess profits levy of 30 per cent to be paid by companies and other bodies, but not individuals or partnerships.

(xiv) The normal standard to be the average of the profits for the three years 1947, 1948 and 1949. For new businesses the standard to be 10 per cent of paid-up share capital (12 per cent for director-controlled companies). Minimum standard £2,000.

(xv) Excess profits levy not to exceed 18 per cent of total current profit.

Stamp Duty

(xvi) Stamp duty on conveyances of property other than stocks or marketable securities to be reduced from 2 per cent to 1 per cent where the consideration does not exceed £3,000, and to 1½ per cent where it exceeds £3,000 but not £3,450.

Motor-car Licences

(xvii) The flat rate for motor-cars to be increased from £10 to £12 10*s* and to be extended to all cars irrespective of the date of first registration.

INDIRECT TAXATION

(i) Petrol tax to be increased by 7½*d* per gallon forthwith.

(ii) The exemption of utility goods from purchase tax to be withdrawn and to be replaced by tax-free maxima for the various kinds of goods; tax to be charged only on the excess over the maximum.

(iii) Entertainments duty to be at the same rates for all kinds of sports.

INCOME TAX

Personal Allowances

As long as income-tax is so complicated, the fewer the people who have to pay it the better, especially where their individual contributions are small. The increase in the personal and child allowances will take about two million people out of the income-tax field with a consequent immense saving in man-power and frustration which alone makes the change worth while, apart from the fact that in view of the fall in the value of money in the last thirteen years the personal allowances are by no means generous.

However, the genesis of the changes in the personal allowances is the need to increase

incentives to work – especially among the wage-earning classes – by raising the point at which the tax becomes chargeable at all and by making the transition from the lowest rate of 3*s* to the standard rate of 9*s* 6*d* both smoother and more gradual. For earned income the real rates are less by two-ninths instead of one-fifth. But it is disappointing that nothing has been done to remove the much criticized abrupt jump in rate where a taxpayer's earnings pass the £2,000 mark. As a result of the increase in the earned income relief the jump is 4*s* 2*d* in the £, which is a considerable deterrent.

The increases in personal allowances are also a corollary to the reduction of food subsidies which will bear most heavily on the family man. Thus the man with a wife and two children will now be able to earn £9 12*s* a week, as against £8 3*s*, before he pays tax at all, while to pay at the standard rate he will have to earn no less than £19 10*s* a week. (In addition the family allowance is increased from 5*s* a week to 8*s*.)

As usual the complex structure of P.A.Y.E. makes it impossible to put the changes into effect as soon as the tax year starts. To give time to print the new tables and issue them to employers, deductions will be made on last year's scale until June 8th, when large numbers of wage-earners will receive substantial refunds.

It is gratifying to see recognition being granted to a much neglected and little-heard group, namely those receiving small incomes which, technically at any rate, are unearned. Anyone whose income does not exceed £250, whether earned or not, is to have earned income relief. If his income exceeds £250 but not £350, the total tax he suffers is not to exceed the sum of (*a*) the tax he would pay if his income were £250, plus (*b*) two-fifths of the amount by which his income exceeds £250.

Deduction of Profits Tax

Hitherto the real burden of excess profits tax and of profits tax has been masked by the fact that these taxes were deductible in arriving at income-tax profit. With a standard rate of income-tax approximating 10*s* this concession was of the utmost value. Thus when excess profits tax was ostensibly at 100 per cent much of it was in effect recovered by a reduction of income-tax. Moreover, every adjustment of an excess profits tax or a profits tax liability entails an adjustment of the corresponding income-tax assessment which, in the case of excess profits tax, might have endless repercussions on capital computations. Although one cannot but deplore parallel taxes on the same profits, the CHANCELLOR's decision to reduce the rate of profits tax and to disallow it in computing income-tax is at least a step in the right direction.

Millard Tucker Recommendations

It will have come as a pleasant surprise to the many people who feared that the Millard Tucker Report had been shelved until the Royal Commission should have reported, that the CHANCELLOR should decide to implement at once some of the more urgent of the Millard Tucker proposals, in particular that losses be available for carry-forward without time limit. Another welcome step is the proposal to give some relief to United Kingdom concerns engaged in mining oversea. The CHANCELLOR has also accepted the recommendation that the illogical advantage enjoyed by brewers under the *Usher* decision should be withdrawn.

Certain anomalies arising out of the capital allowances provisions of Part X of the Income Tax Act, 1952, are to be removed.

Minor Changes

The CHANCELLOR announced that the relief from sur-tax which was granted to Lloyd's and certain other underwriters in 1949 is to be extended by increasing the limits on the amounts which they may deduct for sur-tax purposes in respect of sums paid under approved schemes to trust funds to meet future losses.

In the case of radio relay services and some other concerns rents of easements and other rights connected with cables and wires are to be deductible in arriving at profit and are not to be treated as being paid out of taxed income. This provision is to be retrospective to 1950–51.

Another provision retrospective to 1950–51 deals with marketing boards (such as the British Wool Marketing Board) and provides for the tax treatment of sums moving into, and out of, special reserve funds in connexion with the maintenance of guaranteed prices for producers.

PROFITS TAX

Referring to profits tax, the CHANCELLOR began with these chilling words:

'During the last war, if the excess profits tax

was payable the profits tax ceased to be charged. We cannot be so generous this time.'

Sugaring the pill of three parallel taxes on the same profits, he announced a reduction in profits tax rates; partly to compensate for the new excess profits levy, and partly to compensate for the disallowance of profits tax in arriving at income-tax profit. The new rate would be $17\frac{1}{2}$ per cent with a reduction to $2\frac{1}{2}$ per cent for profits undistributed. There is thus a net charge of 15 per cent on distributions, all of which is borne by the equity shareholder. The many weighty pleas for some relief in the case of preference dividends have thus been ignored. These changes take effect from January 1st, 1952, so that once again it will be necessary to split accounting periods, if they do not coincide with the calendar year.

A very welcome change for the small company is an increase in the amount which may be charged for directors' remuneration in director-controlled companies. In the allowance for two full-time directors whose remuneration is subject to restriction, the limit of £3,500 is to be increased to £4,000 as from January 1st, 1952. Where there are three such directors the limit is to rise from £4,500 to £5,500, while for four or more directors there is a very substantial rise from £4,500 to £7,000.

EXCESS PROFITS LEVY

The much heralded excess profits levy is not to be confined, as at first indicated, to concerns engaged on rearmament but is to extend to all companies and other bodies of persons. Individuals and partnerships, as in the case of profits tax, are to be exempt and there is also to be an exemption limit but of only £2,000, which seems to be very low in view of the fall in the value of money. Moreover, to prevent evasion, special provisions will apply to a new or recently incorporated company under common control with another company. Special minimum standard provisions will apply also to members of groups.

The rate seems to be particularly savage, being 30 per cent net, i.e. the levy is not to be deductible in computing profit for income-tax purposes. Thus the levy corresponds to the 60 per cent excess profits tax which applied in 1946. However, it is not to exceed 18 per cent of the total profit, no matter how large a proportion of that total profit represents excess profit. Nevertheless, as the three taxes, income-tax, profits tax, and excess profits levy are to be cumulative, the total burden may amount to as much as 83 per cent.

The novel departure of having an overriding maximum charge to excess profits levy by reference to a fixed proportion of the total profit, has robbed the provisions as to standard profit of some of their importance, but nevertheless they will cause a good deal of disappointment. The normal standard is to be the average profit for the three calendar years 1947, 1948 and 1949. The years 1950 and 1951 are to be excluded on the ground that they were both affected by the war in Korea.

If the profit of any one or two of the standard years was unduly low, the company may substitute 8 per cent of its paid-up share capital. If the profit of all three standard years was unduly low, a substituted standard of 10 per cent of the company's paid-up share capital may be taken. New businesses set up after the middle of the standard period will likewise have a standard of 10 per cent of paid-up share capital. A company which commenced business during the standard period but before July 1st, 1948, will be able to choose between its average profit in that part of the standard period during which it was in operation and 10 per cent of its paid-up share capital. Borrowed money will not rank as capital for standard profit purposes, but the interest on it will be deductible in arriving at profit.

Director-controlled companies will be allowed an extra 2 per cent in percentages rates but will be subject to the same maximum deduction for directors' remuneration as applies to profits tax.

As a standard, a percentage of paid-up share capital is certainly crude but its calculation should be comparatively simple and most accountants will breathe a sigh of relief that the fantastic capital computations of the old excess profits tax, with their enormous waste of man-power, are not to be resuscitated.

There is a somewhat vague statement to the effect that the standard will be increased by 10 per cent of the profits retained in the business and of new share capital raised. This presumably will apply to all companies and not merely to those adopting a percentage standard. It will constitute an additional incentive to the ploughing back of profits, additional that is, to the differential rates of profits tax. This is certainly

in line with the Inland Revenue tradition of never using only one complication where the same result can be achieved by using two.

The precise terms of the proposals of the levy appear in the Financial Statement (1952–53), as follows:

'It is proposed that as from January 1st, 1952, an excess profits levy shall be imposed on companies and other bodies, but not individuals and partnerships, at the rate of 30 per cent on the amount by which their current profits exceed their standard profits. The levy will be subject to an overriding maximum of 18 per cent of total current profits. The other main proposals relating to the levy are as follows:

'(1) The levy will not be deductible in computing profits for income-tax purposes or profits tax purposes.

'(2) The normal standard will be the average of the profits of the three years 1947, 1948 and 1949. In substitution for its actual profits, a company may bring into the average 8 per cent of its paid-up share capital for each of one or two of those years or 10 per cent for each of the three years. For new businesses, i.e. businesses set up on or after July 1st, 1948, the standard will be 10 per cent on the paid-up share capital. In the case of a company which commenced its business during the standard period but before July 1st, 1948, there will be an option to take a standard based on its average profits in the standard period or 10 per cent of its paid-up share capital. The standard will be increased by 10 per cent of the amount of profits retained in the business and of new share capital raised. Borrowed money will not rank as capital for excess profits levy purposes, but the interest payable will be allowed as a deduction in computing profits.

'The percentages for director-controlled companies will be 10 and 12 instead of 8 and 10. For mines and oil wells there will be additional percentages.

'(3) There will be a minimum standard of £2,000 but special provisions will apply when the company belongs to a group of companies or when it is a new or recently incorporated company under common control with another company.

'(4) Profits for the purposes of the levy will be computed in the same way as they are computed for profits tax purposes subject to special provisions to ensure a fair comparison of the business in the standard period with the business in chargeable periods. In view of the changes which have been made in the initial allowances, it is proposed that for excess profits levy purposes the company shall have an option to take an allowance of 20 per cent in respect of plant and machinery and 10 per cent in respect of industrial buildings for both the standard period and chargeable periods or to have no allowance in any period.

'In the case of certain director-controlled companies, directors' remuneration will be allowed as an expense within the new limits proposed for profits tax purposes.

'(5) If a company takes over the business of another company the transferee may elect to take the transferor's standard subject to a deduction of 10 per cent on the purchase price. If the succession relates to part of a business the standard will be divided between the transferor and the transferee if both companies so elect. A new company which succeeds to a business previously carried on by individuals may have a standard based on the profits of the previous proprietors provided that those individuals or members of their family control the new company.

'(6) Within the period of charge, deficiencies of profits for one year will be set against excess profits for another year.

'(7) A group of companies will be treated as a single unit. The group provisions will apply only to subsidiary companies which are ordinarily resident in the United Kingdom and a company will be deemed to be a member of a group if not less than 75 per cent of its ordinary share capital was owned by the principal company or another member of that group on January 1st, 1952.'

ESTATE DUTY

The recent House of Lords decision in the *St Aubyn* case[1] that money paid to a company is not a transfer of assets for the purpose of Section 46 of the Finance Act, 1940, is to be reversed by legislation. The decision certainly produced an absurd result but this was not by any means the only absurdity stemming from this extraordinary section, and it is a pity that no steps are being taken this year to recast the whole of the estate duty legislation relating to companies.

Another anomaly lies in the existing system of reliefs from estate duty on the estates of members of the Forces. The CHANCELLOR said that the present distinction between lower and higher ranks was unjustified. He proposed to treat all ranks alike and, broadly speaking, to give total exemption from duty in wartime or in warlike operations and no relief at all in time of peace.

MISCELLANEOUS

Postage on letters for oversea or weighing over four ounces, and registration and postal order charges are all to be increased, likewise the charges for telephone services. A loophole in the Pool Betting Duty is to be closed and there are other amendments of a minor character.

[1] *St Aubyn Estates Limited v. Attorney-General,* [1951] 30 A.T.C. 193.

THE ROYAL COMMISSION

AS we reported in our last issue, the PRIME MINISTER was asked in the House of Commons on March 3rd whether the recent change in the terms of reference of the Royal Commission on the Taxation of Profits and Income was made at the request of LORD WAVERLEY and whether the original terms would now be restored. MR CHURCHILL has now replied that although the specific amendment had been made in agreement with LORD WAVERLEY, the same point had been raised by the former chairman, LORD COHEN, in a letter of April 20th last addressed to the then Chancellor of the Exchequer, MR HUGH GAITSKELL, and that the latter did not dissent from the interpretation which LORD COHEN had placed upon the terms of reference. Of course it was no secret that the terms as originally drawn were hampering the Commission's work and reducing its utility; the fact had been pointed out in this journal and in other publications. Nevertheless MR FLETCHER asked, was not the change in the terms of reference 'a sinister and unnecessary attempt to invite the Commission to make recommendations in accordance with LORD WAVERLEY's well-known political views on the amount of revenue raised from taxation; and ought not the PRIME MINISTER now to restore the original terms of reference?' MR CHURCHILL repeated that LORD COHEN had pointed out to MR GAITSKELL the need to amplify and clarify certain things in the terms and that the latter wrote back expressing his agreement. On a new chairman taking over, the amendments were introduced in accordance with what had been agreed beforehand. MR GAITSKELL interposed to say that he did not recall that the proposals in LORD COHEN's letter were 'by any means identical' with the change in terms which was apparently made at the instance of LORD WAVERLEY; he asked the PRIME MINISTER to publish the correspondence. MR DOUGLAS JAY then asked if there was any precedent for the Government 'tampering radically with the terms of reference of a Royal Commission in the middle of its work', to which MR CHURCHILL replied that this was all an elaborate step to fabricate another mare's nest.

The correspondence in question having now been made public, it is possible to form an independent view on this controversy. In his letter of April 20th last to MR GAITSKELL, LORD COHEN said that both he and MR MILLARD TUCKER thought the usefulness of the Commission's work might be seriously diminished if too literal a construction had to be placed on that part of its terms which required the recommendations to be 'consistent with maintaining the same total yield of the existing duties in relation to the national income'. He suggested the Commission might usefully place a broad construction on its terms of reference and treat itself as being at liberty, not only to recommend priority concessions for which it could provide immediate compensations, but also to recommend other concessions which it thought advisable or equitable, even though the Commission itself was unable to suggest how the resulting loss of revenue could be made good. It could make clear in its report its appreciation of the fact that these further concessions might be dependent on an improvement of the country's economic position or on the CHANCELLOR being able to obtain compensation for the loss in revenue by some other means.

MR GAITSKELL did not reply until June 26th, but he then agreed that the terms of reference should not be interpreted so as to debar the Commission from including recommendations on particular matters that might in the final result bring out a balance on the wrong side. Indeed, if so narrow an interpretation were placed upon their terms of reference the Commission's advice on a number of matters which it had had under consideration might be lost. If the final balance should prove to be on the wrong side the Commission should, as suggested, state in its report that the implementation of certain of the recommendations might have to wait until the economic situation improved. It would be most valuable to know in what order the Commission considered that effect should be given to its recommendations when circumstances permitted.

All this seems to be the plainest common sense and it will be interesting to know whether it is still thought that the change in the Commission's terms of reference was 'sinister and unnecessary', or amounted to 'radical tampering'.

WEEKLY NOTES

Directors' Emoluments

We reproduce elsewhere in this issue a statement by the Society of Incorporated Accountants and Auditors on 'The duties of auditors as regards directors' emoluments under the Companies Act, 1948'. The statement consists of the joint opinion of counsel and a recommendation by the Council of the Society to members, including a suggested standard form of notice to be given by a director regarding his emoluments. Section 198 of the Act, which provides for the notice to be given by a director, does not require the notice to be given in writing and this is clearly a defect in the Act. The Council of The Institute of Chartered Accountants in England and Wales recommended to the Board of Trade in 1949 (as a matter for consideration on revision of the Act) that Section 198 (1) should be amended so that a notice *in writing* would be required from each director covering all pensions, compensation and emoluments including all benefits received otherwise than in cash.

In most cases an auditor could not carry out his duties (particularly the specific one imposed on him by Section 196 (8)) unless the directors' notices were in writing and it was therefore not suprising that the Council of the Institute (in its booklet of May 1948 on the Companies Act, 1947) made a recommendation to members of the Institute on this important matter. The recommendation was to the effect that where the notice is not in writing the auditor should require (under Section 162 (3) of the Act) a statement in writing approved by resolution of the board. We have now had nearly four years' experience of the application of the Act and where a particular form of written notice has been found in practice to be satisfactory, there is clearly no need to change it merely to conform to a standard form; and the Society's suggested form will therefore be of interest primarily in cases where difficulty has been experienced in obtaining the required notice in writing. Directors react in widely differing ways to requests for signed statements of their emoluments and only experience will show whether, in a case where difficulty has been experienced, the director's reaction will change because he is told that some other directors are being presented with a form in similar terms.

Some parts of the opinion of counsel will be received with mixed feelings. Thus, counsel say that

> 'it is plainly desirable as a practical matter that the professional bodies concerned [presumably the Society and the Chartered Institute of Secretaries, the two bodies who put the case to counsel] should agree upon a standard form. . . . Such standard form should clearly be in writing and require the director's signature; it should not require the counter-signature of the Chairman or the approval of the board. . . .'

The desirability of a standard form may be less plain to auditors, who have to exercise their judgment in so many diverse circumstances, than it is to counsel, who here seem to be offering advice on matters which are not questions of law. However, auditors who do not wish to use the standard form in any particular case are not likely to experience difficulty. What may cause difficulty to auditors is the statement by counsel that the notice should not require the approval of the board. Cases which are most likely to place the auditor on his guard are those where the directors are not quite the happy family which they ought to be and where directors are reluctant to let their colleagues know what emoluments they are receiving. Any director who may seek to rely on the statement by counsel that his notice regarding emoluments should not require the approval of the board, where the auditor wishes to have that approval, would be well advised to remember that counsel are not making a statement of law; they have merely expressed an opinion on a question of auditing practice on which, fortunately, the last word is still with the auditor. The auditor has the right to qualify his report in any case where he has not been able to satisfy himself, in what he thinks is the proper manner, on the specific duty laid upon him by Section 196 (8). There may often be circumstances in which an auditor may take the view that he can satisfy himself only if the directors' emoluments, and in particular benefits in kind, have the approval of the board; and in this connexion it is important to remember that the directors have a collective responsibility for the proper disclosure to shareholders of the emoluments which the Act requires to be disclosed.

The standard form of notice suggested by the Society is accompanied by an alternative 'short form'. This alternative form appears to arise from the opinion expressed by counsel that

> 'where the full information required for Section 196 to be complied with is manifest in the books of the company, a statement by the director that he has received no emoluments which do not so appear would comply with Section 198 for it is not in our opinion "necessary for the purpose of Section 196" that information clearly appearing in the company's books should be repeated'.

Whereas the suggested full form gives a reasonable indication of the various heads under which emoluments may fall and the various sources from which they may have been received, the 'short form' assumes that the director signing it will not only have examined the books of the company but is also conversant with the requirements of the Act. The 'short form' is therefore one which appears to be suitable only in the most simple and straightforward cases.

Cost of Royal Commission

The Civil Estimates for 1952–53 show a total of £8,060 to be expended on the Royal Commission on the Taxation of Profits and Income. Of this, £6,510 represents salaries, as against £5,950 in 1951–52. The other items are travelling and incidental expenses (£1,300) and shorthand writing (£250) which are the same as last year.

National Income in 1951

Owing to the advancing of Budget day by a month, it has not been possible to prepare the usual finalized figures for the National Income before the Chancellor's speech. Instead, a provisional set of figures has been released as a White Paper this week (Cmd. 8486, price 6*d*).

During 1951, the gross national product increased by 4 per cent on 1950. Gross national product is the sum of home-produced output and net income from abroad. The actual total was £12,414 million, or £507 million higher than the year before. This increase represents a slightly smaller rate of growth than in 1950, when the gross national product advanced by 5 per cent. The increase has been noticeably bolstered, however, by the effect of higher prices and an adverse external trade balance. The additional home production plus the change from a positive to a negative trade balance enabled this country to raise its consumption of goods and services by 10 per cent.

Trading profits, including in that the trading surpluses of the publicly-owned corporations, rose by £453 million to £2,397 million – rather more sharply than in the previous year. But provision for taxation absorbed more and net profits rose by only 6 per cent on the year compared with 19 per cent in 1950. Most of the increase last year was in any case caused by an appreciation of stocks.

These figures will be dealt with more fully when the final versions are published.

Report on Retail Index

The report of the Cost of Living Advisory Committee on the working of the interim index of retail prices was issued last week. Having examined the present index they recommend that it should continue to be used with certain temporary modifications until a new index can be instituted based on the results of the new budget inquiry, plans for which are now in operation.

Sharp Decline in Imports

Provisional estimates of the visible trade balance in February show a noticeable fall in imports. They were £297 million compared with £357 million in January. Exports also eased off but not to the same degree. In consequence, there was an improvement in the adverse balance. At £53 million, against £93 million in January, it compared with £43 million in December 1950.

The daily rate of exports was less than in January, but better than the average for the second half of 1951 and it was also aided by good re-export figures. February is usually a month of low imports but last month was particularly so, suggesting that the November import cuts are now beginning to have an effect on the visible balance.

Building Societies in 1951

Another record year for the building societies is reported by the *Building Societies Gazette* in its review of operations in 1951. Balances due to shareholders increased on the year by £96 million to £1,058 million and balances due to depositors were slightly higher at £208 million. Investments fell by £5 million but cash was up by £7 million. The number of mortgage accounts was increased during the year by 60,000 and receipts from borrowers were higher by £4 million. Balances due on mortgages were as much as £101 million up on the year, but new advances were very slightly lower by £1 million.

These figures are estimated to cover about 86 per cent of the movement's total assets, so although the coverage is not complete the figures give a very good general indication of the results for societies as a whole last year. It will be interesting to see in due course if these very satisfactory figures were the climax before dearer money came with the increase in Bank Rate or whether the movement can continue its recent spectacular and buoyant results.

Better Transport Receipts Continue

Higher freight rates and passenger charges are helping to maintain the recent improvement in the level of the receipts of the British Transport Commission. For the four weeks ended February 24th, all sections of British Railways showed an improvement. In fact, the only parts of the system of national transport coming under the Commission which did not record an increase on the previous four-week period were London Transport and Scottish and Provincial Road Transport.

For the whole of the Commission's services the takings for the four weeks were £42 million, an increase of £1·7 million on the previous period. The aggregate for 1952 so far thus becomes £83 million which gives an improvement of just short of £10 million over 1951 results at a comparable time.

These figures do not of themselves answer the Commission's basic problem at this time, however, for the real issue is not whether receipts are increasing but whether they are increasing quickly enough to offset rising costs.

National Savings Limits

A note in our issue of February 23rd on the new national savings limits said that the limit to holdings of Defence Bonds was raised to £3,000 on October 1st last. This figure should, of course, have been £3,500.

THE COMPANY PROSPECTUS – III

THE ACCOUNTANT'S APPROACH

by H. A. BENSON, C.B.E., F.C.A.

The previous lectures in this series – from the viewpoints of the Stock Exchange and the lawyer – were reproduced in our issues of February 2nd and 9th respectively. We hope to include the final lecture in the series, giving the investor's approach, in a later issue. The series forms part of the winter lecture programme of the London and District Society of Chartered Accountants. The address reproduced below was delivered at a meeting on January 29th, 1952, with Mr G. D. F. Dillon, F.C.A., President of the Society, in the chair.

THE difficulty of preparing an address of this character is that either it tends to read like an inferior text-book, or, alternatively, it becomes a series of broad generalizations which are not of much interest or value. I have tried, therefore, to steer a course between these two extremes and to comment upon some of the practical points which arise in one form or another when an accountant is asked to prepare a report for prospectus purposes.

An accountant who is called upon in this way will almost invariably be the auditor to the company. Very frequently, however, the auditor will be joined by an independent accountant who is asked by the issuing house or the sponsoring brokers to collaborate with the auditor so as to bring to bear an independent viewpoint, or the benefit of a wider experience in this type of work.

Function of the Independent Reporting Accountant

The primary responsibilities of both the auditor and the independent accountant are, of course, the same, but the independent accountant has additional responsibilities as well. It is his duty to consider not only the correctness of the figures he is certifying, but whether there are any matters of special importance affecting the business as a whole which he should refer to his principals. For example, if in the course of his inquiries he felt that the internal administration of the company was in poor shape he would normally express that opinion to the issuing house so that it could make further inquiries before proceeding with the issue. Other examples, of which there are many, might be the absence of a pension scheme, unsatisfactory methods of annual stocktaking or an inadequate costing system. Issuing houses and firms of issuing stockbrokers prosper only on sound issues and they rely on the reporting accountants to help them in forming a judgment as to the quality of the company they are sponsoring. Suggestions of this character can also be of value to the companies themselves, as the directors are usually glad to draw upon the accumulated experience of issuing houses and their advisers in order to improve weaknesses in their organization, which are spotlighted for the first time when the public are invited to become shareholders.

Type of Report

Before beginning his work the accountant will first make up his mind as to the type of report he is required to give. If it is in connexion with a prospectus or offer for sale, he is bound by the relevant sections and schedules of the Companies Act, amplified and expanded in certain respects by the regulations of any stock exchange upon which a quotation is being sought. If it is in connexion only with an advertised statement (which is not a prospectus) he must conform to the regulations of the stock exchange under whose auspices it is issued. I do not propose to go into these technicalities. As far as the Companies Act is concerned, most of the important provisions are contained in Sections 38–40 and 455 and in the Fourth Schedule; as regards the Stock Exchange, London, the regulations are conveniently summarized in a publication called *New Issues*.[1]

Examination of Past Profits

The accountant's first preoccupation will be the correctness of the profits for the past ten years or other period to be covered by his certificate. He has to consider profits from two separate angles. Firstly, whether the profits were in fact earned in each of the years; whether the method of computing them was consistent; and whether they include or exclude items which call for adjustment. Secondly, he has to remember that profits are only shown in a prospectus as a guide to what may happen in the future. He must consider whether the circumstances under which they were earned are so far different from any known circumstances in the future, as to make some explanation or reservation necessary, either in his report or the main body of the prospectus. In other words, although the accountant's report must be confined to facts, he must see that the facts are

[1] The Times Publishing Co Ltd.

properly and fairly interpreted in any prospectus or statement issued to the public.

As regards the first of these tasks, it is suggested that profits can only be seen in a right perspective if the detailed trading and profit and loss accounts are summarized in columnar form for the whole period so that one year may be compared with another and the reasons for wide variations traced. Thereafter, the accountant will tread some well-worn paths, which I need not follow tonight, in order to satisfy himself that the profits are correctly stated. A comparison of gross profit percentages to sales; examination of the taxation computations each year in case they throw up important adjustments; elimination in holding companies of inter-company profits; method of stocktaking and basis of stock valuation; any change in the accounting principles adopted in preparing the accounts; adequacy and consistency of depreciation charges; exceptional or non-recurring credits or debits; adequacy or the reverse of directors' remuneration where the business has been privately owned; excessive provisions for bad debts; correct spreading of exceptional or deferred repairs or of the profits on long-term and costed contracts; elimination of interest where loans are to be repaid out of the proceeds of the issue. These and many other similar routine tests must be applied to the accounts of the company and, where it is a holding company, to each of the subsidiaries. If the work is done systematically it is unlikely – with one important exception – that any material item will pass unnoticed. In this respect the accountant's task has been simplified since the 1948 Companies Act as its stringent provisions help to throw up unusual items in the accounts.

Stock

The exception I have referred to is stock and work in progress. I still feel that as a profession we do not do enough to satisfy ourselves about stock and work in progress, whether it is on the annual audit or in reports for prospectus purposes. The two cardinal factors are that stock should be physically counted, either all at one time or by continuous inventory, and that it should be properly and correctly valued in accordance with accepted accounting principles. Far too many businesses still omit part of the stock from the stock sheets, or undervalue stock unjustifiably or vary the basis from year to year, with the result that the profits are distorted; furthermore, a day of reckoning with the Revenue authorities will almost certainly sooner or later come about – very possibly in an E.P.T. period – and it would make the position of the reporting accountant extremely difficult if some of the years reopened by the Revenue fell within the period covered by his report.

If the auditor has not verified the methods of stocktaking and the stock valuation each year on the audit, I suggest that before a prospectus report can be signed the auditor or, in appropriate cases, the independent accountant must make proper inquiries on these points. If the auditor or the independent accountant cannot satisfy himself, he should word his report accordingly and I may perhaps lend point to these remarks by quoting the wording used in a recent prospectus report on the profits of a company for the 9½ years to December 31st, 1949:

> 'A complete physical stocktaking was made by the company at December 31st, 1948, and December 31st, 1949, but the company has insufficient evidence in its possession to satisfy us as to the stock valuation at preceding balance sheet dates. For this reason we have been unable to verify the allocation between years of the profits of the company up to December 31st, 1948, as shown in column 3, but we are satisfied that, taken in the aggregate, they correctly reflect the earnings for the whole period of eight and a half years from the date of incorporation to December 31st, 1948.'

I have been told of three cases in the past twelve months where the reporting accountants have felt themselves unable to issue any report as a result of being dissatisfied about stocks. It is important, therefore, that directors, particularly of companies which are privately owned, should realize that failure to follow well-established principles of stocktaking and stock valuation may prevent their placing their shares on the market. The Share and Loan Department of the Stock Exchange is now also taking a special interest in the question of stock, and reporting accountants are requested to state in a separate letter whether they have satisfied themselves that stocks and work in progress have been properly taken and valued throughout the period covered by their report.

Depreciation of Fixed Assets

There is a good deal of variation in prospectus reports in the treatment of depreciation of fixed assets, and it will be remembered that some important principles on this subject were suggested in the Institute Recommendations, 1949,[1] paragraphs 203–206. Some accountants charge depreciation and show no separate figures in respect of it; others show the amount of depreciation in a separate column; others add back the depreciation actually charged and substitute the taxation allowances; others compare the actual charges in the accounts in the aggregate with the taxation allowances, with or without taking into account initial allowances. Each case must, of course, be considered on its merits, but I have always thought that there was a good deal of unnecessary confusion on this subject. Leaving aside the question whether depreciation should be adjusted so as to be calculated on current values of fixed assets, the basic consideration must surely be whether, in the accountant's opinion, enough depreciation has been written-off against profits each year to extinguish the book value

[1] Recommendation No. XIII. 'Accountants' Reports for Prospectuses: Fixed Assets and Depreciation'. *The Accountant*, March 12th, 1949.

of the fixed assets over their useful life? If he is satisfied on this point, I suggest that either he should say that the depreciation charged against profits by the directors is in his opinion adequate, or else he should follow the principle an auditor adopts each year on the audit and say nothing, and by his silence allow it to be inferred that he would have commented if he had been dissatisfied; in either case I see no reason why he should complicate his report by showing depreciation in a separate column or by saying that the depreciation in the aggregate exceeds the taxation allowances.

If, on the other hand, he is not satisfied with the depreciation, no amount of padding in the report will dispel his uneasiness and his proper course is to adjust the profits appropriately. What that adjustment should be can only be decided on the facts, but a mere substitution of the taxation allowances is by no means necessarily the right answer. Much may depend on the book value of the fixed assets as compared with the income-tax values and on the rates of depreciation which the directors intend to write off in future, and the accountant should make inquiries on these points. If he does adjust the profits, I suggest that his primary duty is then to say in his report that the amounts he has charged for depreciation are adequate, and the wording might perhaps take the following general form:

> 'During the period the company did not compute depreciation of fixed assets on a consistent basis and we have therefore charged against the profits of each year a sum which in our opinion is adequate and which is based on the rates of depreciation we are informed will be adopted in the future.

I believe that the foregoing general approach to depreciation in prospectus reports would be of greater value to the investor than the one which is usual at present.

Depreciation and Taxation Allowances

I believe that taxation allowances in respect of fixed assets are of greater importance in relation to the future than to the past; for this reason, when making his inquiries prior to drafting his report, the accountant should compare the present depreciation charges with the taxation allowances in order to see how profits in the future will be affected. If the depreciation which is at present being provided by the company is more or less than the corresponding taxation allowances, and the excess or deficiency is material, it might be necessary for a paragraph to appear in his report to show the effect on future profits and future taxation. This most usually arises when the fixed assets have been revalued, either at some earlier date or for the specific purposes of the issue, with the result that depreciation is substantially more than the taxation allowances and the excess has to be found out of taxed profits. In such cases the wording in the accountant's report might take the following form:

> The directors estimate that the future charge for depreciation based on the valuation of the fixed assets referred to below (i.e. in the statement of net assets) will amount to approximately £50,000 compared with a sum of approximately £30,000 per annum which has hitherto been charged against the profits as shown in column (3). Future depreciation including that part of it for which corresponding taxation allowances will not be obtained will absorb profits of £72,500 at present rates of tax.

If a paragraph such as this was to appear in the accountant's report it would also be necessary for him to see that its effect was brought out in the paragraphs of the prospectus which refer to 'Future prospects' and to verify that the proposed dividend could in fact be paid. The point is, of course, that at present rates of tax (ignoring E.P.T.) every £1,000 of depreciation (or for that matter any other disallowable expense) for which taxation allowances are not received, requires profits of £2,117, as follows:

	£
Profits	2,117
Less Profits tax at 10 per cent	212
	1,905
Less Income-tax at 9*s* 6*d* ..	905
	£1,000

Comparison of Book Values and Income-tax Values

A valuable test which the accountant can apply in order to ascertain the full extent of this problem is to compare the written-down book values of the assets on which taxation allowances are obtained with the written-down value of those assets for tax purposes. If the book value is in excess, future profits will have to bear tax on the excess and such tax will have to be found out of taxed profits. The extent of this burden on future years is often material and the accountant may well think it worthwhile suggesting to the directors that tax on the difference between the book value and the income-tax values should be transferred to 'Future taxation reserve' out of revenue reserves. The point should certainly be mentioned to the issuing house.

Depreciation in Relation to Asset Cover

It is necessary for the accountant to consider another aspect of depreciation. Directors frequently arrange for an independent valuation of the fixed assets to be made for the purpose of a prospectus. If the valuation is incorporated in the books, then the situation which I have just described arises and the accountant in his report should state what the full cost of the future depreciation charges will be. Sometimes, however, the valuation is not carried into the books, but nevertheless the valuation is used (in

substitution for the book values of fixed assets shown in the accountant's report) to support the asset cover for the purposes of a debenture or preference share issue, but without any warning in the prospectus as to the cost of depreciation; the Institute made a recommendation[1] against this practice in 1949, but some issues made recently did not follow the recommendation.

The object of the recommendation is clear. If the prospectus invites subscriptions from the public on the basis of a certain asset cover then the company should ensure that it maintains intact assets of that value. This can only be done by setting aside in future, profits equivalent to depreciation on the valuation figures and shewing in the prospectus what the cost of doing so will be. If they are to be included at all, valuations of fixed assets which show an excess over the book figures therefore need careful treatment in prospectuses unless either they are incorporated in the books or they are used to support an asset cover with the necessary undertakings as regards future depreciation. There is no objection to a statement in a prospectus that in the opinion of the directors, or as a result of an independent valuation, the value of the fixed assets exceeds the book values, as that has the merit of satisfying the investor that the fixed assets are not overvalued; it is the inclusion of the amount of the valuation in association with the asset cover that tends to be objectionable. The situation is partly safeguarded by the attitude of the Share and Loan Department, which insists that if an asset cover is given based on valuations of fixed assets, then the cover is also given based on the book values.

Taxation

Another point on which there is a good deal of variation of treatment is that of national defence contribution, excess profits tax and profits tax. Some accountants do not show any taxation figures at all, but certify profits before all taxation and leave it at that. Others take the view that the above types of taxation are a charge on profits and not recoverable from shareholders, and that a certificate of profits would be incomplete without a column showing the extent of the charge. The Share and Loan Department does not require the column for taxation to be included in prospectus reports and I am coming more and more to the conclusion that, under present conditions, with changing types of taxation, changing rates of taxation, wear and tear allowances which are often out of line with depreciation charges, and taxation which is partly determined not by profits but by dividends declared, the taxation column in most prospectus reports is meaningless; I doubt whether one investor in a thousand pays any attention to it. Indeed, where, up to the time of the issue of a prospectus, dividends of a private company have been small or nothing and, after the prospectus is issued, it is proposed to pay normal dividends to shareholders, the figures in respect of profits tax are positively misleading without explanatory wording, which is often not given; the reverse position arises where a director-controlled company has paid no dividends but, nevertheless, has suffered profits tax on disallowed directors' remuneration. I am far from saying that all reference to taxation should be excluded; on the contrary, I believe that a much clearer picture would be given to the investing public if, in every prospectus, the certified profits for the last one or two years and (where the directors will commit themselves to a figure) the estimated current profits, were shown after applying as nearly as possible the rates of taxation ruling at the time the prospectus was issued and on the basis of the dividend which the directors estimate will be paid. This calculation would also include income-tax. This suggestion may be particularly important in view of the Government's announced intention of imposing an excess profits tax. By this means the investor would be able to see what his real dividend cover was and, after the State has taken its share, what profits were in fact retained in the business. I think that this information would surprise many non-professional investors, and it would be of greater practical value than some of the statutory information in small and almost unreadable print which clutters up most prospectuses.

Overseas Subsidiaries

Overseas subsidiaries sometimes give trouble and the accountant has to consider whether or not their results should be included in the consolidated profits. I believe that the main test should be, 'Are the profits at present capable of being freely remitted to this country?' If they can, then there is usually no objection to their inclusion. This does not, of course, mean that they have been remitted or, indeed, that they necessarily ever would be remitted, as they may be required in the overseas subsidiary for working capital, or for further development there. If the profits cannot be remitted by reason of exchange restrictions or other reasons they are better excluded, though there would normally be no objection to the inclusion of any dividends which had in fact been received in sterling, provided that there was no reason to suppose that the remittance of similar dividends would be prevented in the future. If the results of overseas subsidiaries are included and they are a material part of the total profits, it may be advisable to show them in a separate column; because it may be important for intending investors to know the extent of the profits earned outside the United Kingdom which are therefore at the risk of foreign governments and foreign laws. I suggest that all foreign taxation applicable to profits of foreign subsidiaries, including any dividend taxes which would become payable if the profits were remitted, should be deducted from the foreign profits, though in this event it may be appropriate to make some reference in the accountant's report to any double taxation relief obtainable

[1] Recommendation No. XIII. 'Accountants' Reports for Prospectuses: Fixed Assets and Depreciation'. *The Accountant*, March 12th, 1949.

against United Kingdom taxation thereon. The decision whether the assets and liabilities of overseas subsidiaries should be included in the statement of net assets, or whether they should be included under the heading 'Subsidiaries not consolidated' will normally follow the decision made with respect to the profits.

Change of Circumstances

I mentioned earlier on that, when considering profits, the accountant had a second and equally important task, which was to consider whether the circumstances prevailing during the time the profits were being earned, had changed to such an extent as not to make them representative under the known circumstances in the future. The most usual and obvious example is where a business was engaged during the last war on armament contracts and has switched to peacetime production; in such cases the war profits may be entirely unrepresentative of the true profit-earning capacity. Other examples of a similar type are where the character of the business has altered radically by reason of the imposition or removal of Government controls or subsidies, or shortages of labour and materials, or as a result of new inventions, or because of changes in the fashions or the habits of the public. If conditions such as these apply, the accountant should state the facts in his report or see that they are clearly said in the main body of the prospectus. Many businesses are now again switching over to armament production and this point may therefore be of significance in the future reports we are asked to sign.

Businesses Acquired or Discontinued

In a similar way, consideration must be given to the profits of businesses which have been acquired or discontinued during the period covered by the report. Should the results of businesses acquired during the period be included only from the date of acquisition or for the whole period? Should businesses which have been discontinued be excluded for the whole period? Clearly, if a holding company is formed to bring together a number of operating companies, the report will cover all businesses for the whole period. If, on the other hand, an established holding company has during the period bought one or two new ancillary businesses for cash, it would be normal to include the results of those businesses only from the date of acquisition. It is impossible to lay down any hard and fast rules and it is best to rely on a common-sense judgment in the light of the particular circumstances.

Other Factors

When an issue to the public is to be made the opportunity is frequently taken of introducing a pension scheme or revising an existing one. Alternatively, the basis of directors' emoluments may be radically changed. Another example I have already referred to in a different context is depreciation in relation to future taxation allowances. If the charges against profits for these and similar expenses are to be materially different from what they were in the past, the accountant should show the effect in his report and he should see at the same time that they are taken into account in the paragraphs of the prospectus dealing with the directors' estimate of future profits. In this connexion it will be remembered that pension schemes often have a large back-service liability on inauguration.

Inflation Profits

A part of the profits now being earned by industry are, in a sense, fictitious and this warrants consideration by certifying accountants. They are fictitious in two ways. Firstly, the revenue is recorded in present-day £s, but depreciation of fixed assets is recorded in pre-inflation £s. I do not propose to comment on this vexed question tonight, except to point out the curious inconsistency that in certifying profits of foreign subsidiaries the profession takes account of changes in the value of foreign currencies, but in the same report it disregards them in certifying sterling profits. Until the profession and industry between them have solved this problem, there is nothing for the accountant to do but to continue, as in the past, and quite illogically to treat the pre-inflation £ as though it was of the same value as the present-day £.

The second reason why profits may be partly fictitious is that they include inflation profits. In many industries selling prices are continually rising, with the result that stock on hand is being realized at enhanced and fortuitious prices. On the assumption that, sooner or later, the inflationary trend will be checked or reversed, it is important that in appropriate cases prospectuses should remind investors that the profits over the last two or three years are abnormal and unrepresentative. It is usually impossible to quantify the amount of such fortuitious profits; for that reason reference to a specific amount may not be possible in the accountant's report, but it is suggested that he should ensure that the point is brought out clearly in the main body of the prospectus. A LIFO or base stock method of valuation would, of course, help to overcome this problem.

While considering inflation, it is perhaps worth observing that the average investor, if asked what he would look for in studying a prospectus, is likely to put high on the list 'a steady earnings record'. In fact, however, a steady earnings record in a period of inflation may well mean that the real earning capacity of the business is falling, particularly as depreciation continues to be written off on historic cost. Furthermore, a steady earnings record coupled with rising taxes and a maintenance of the same dividend means that less and less profits are being retained in the business. Unless, therefore, a business has shown a considerable increase of profits over the pre-war figures and a continuous increase in profits year by year since 1946, when inflation first seriously began

to manifest itself, the intending investor would be wise to study the prospectus with a good deal of care.

Statement of Net Assets

The statement of net assets usually gives less trouble than the profits. Provided that no events or transactions of material importance have occurred between the date of the last balance sheet and the date of the prospectus, and provided that the balance sheet complies in all respects with the provisions of the Companies Act, the amendments or adjustments for the purpose of a statement of net assets are largely questions of form rather than substance; the accountant should, however, verify that any important notes appearing on the annual accounts are repeated in the statement of net assets. There are, however, one or two general matters which merit comment.

Proceeds of the Issue

Some accountants add to the statement of net assets the anticipated proceeds of the issue dealt with by the prospectus. Others do not, on the ground that the Act requires them to report on the assets and liabilities at the last balance sheet date. My personal view is that the technical objection just referred to is not of great significance and the accountant may adopt whichever presentation is likely to show the position most clearly to the intending investor.

Undistributed Profits Tax Relief

I believe that it is advisable to show in the accountant's report the amount of the undistributed profits tax relief which the company has obtained and which may, under certain circumstances, be withdrawn. This is not generally done at present, but in many businesses the figure is reaching significant proportions. Directors of companies and issuing houses may claim that it is not the intention ever to pay dividends out of reserves, but no one can look far into the future; apart from this, profits tax relief is withdrawn under other circumstances – if, for example, profits are capitalized and a return of capital is later made to shareholders. I suggest, therefore, that accountants should endeavour to establish the practice of showing the amount of the relief in prospectus reports in future.

Future Taxation

Some accountants show future taxation as a liability, some treat it as a revenue reserve, and others deduct it from the total of the net assets. Here again, I do not think a hard-and-fast rule can be laid down. If the profits in the current year, that is the one following the last audited accounts, are steady or rising, it would seem that future taxation is in fact a free reserve and should be treated as such in the statement of net assets. If the profits in the current year are falling, then part of the future taxation reserve will be needed, as current profits will be insufficient to provide the tax; as it would be difficult to split the reserve satisfactorily, it is therefore better under such circumstances to treat the whole amount as a deduction from the net assets.

'Represented by'

Many accountants show at the foot of the net assets how they are represented, namely share capital, capital reserves and revenue reserves. I believe this to be a good practice which is helpful to investors. It is not always possible if there have been changes in the capital structure between the date of the last accounts and the date of the prospectus, but whenever practicable I suggest it should be done in prospectus reports.

Technique of Prospectus Reports

I would like to make one or two comments on the technique of prospectus reports. Firstly, may I suggest a general simplification of presentation and of the wording which is intended to explain how the profits have been arrived at. One often finds that the explanatory paragraphs or notes following the profit columns in the report contain unnecessary detail; 'before chargings' and 'after chargings' are muddled up together so that one has to be something of a mental gymnast to understand the writer's intention. In a recent report, selected at random, there was one huge paragraph below the profit columns which, with an occasional stop here and there, rushed breathlessly on for nearly 300 words and unfortunately, but effectively, confused what was important with what was not. Primarily it is the accountant's job to make up his mind whether an item should be charged against profits or not and he does not do his job by stringing out in his report a number of minor adjustments he has thought fit to make. It is noticeable that the best prospectuses normally have simple, straightforward reports. In drafting the report there is also something to be said for inserting cross-headings in heavy type, such as 'Profits', 'Net assets' and so on, and numbering the paragraphs of the report rather than including a series of disjointed notes.

Secondly, may I suggest that the emphasis should be against adjustments to the profit figures shown by the audited accounts and not in favour of them. There is a tendency to write back small items of a capital nature or of a so-called abnormal character, but unless the item is material or a question of principle is involved, the less that the audited figures are interfered with the better. A comparatively small experience of prospectus reports soon convinces one of the truth of the paradox that abnormal items are quite normal.

Thirdly, in a memorandum[1] issued in 1948 the Share and Loan Department of the Stock Exchange, London, indicated that it preferred the adjustments to profits to be set out in a standard form, and it is helpful to everybody concerned in the issue if that

[1] *The Accountant*, November 13th, 1948.

form is used in the first place. In addition, in 1949 the Share and Loan Department made known its requirements as regards pre-acquisition profits of holding companies.[1] The department also prefers certain groupings and descriptions of assets and liabilities, and it is advisable to have a note of these readily available as it saves time and trouble in the final stages. For example, it likes freehold properties to be distinguished from leasehold properties; separate figures to be shown for stock and work in progress; the basis of stock valuation to be shown; trade debtors to be shown separately from other debtors and payments in advance; trade creditors to be shown separately from other creditors and accrued liabilities; the amount of the directors' emoluments (and it prefers the word 'emoluments' to 'remuneration') for the last year to be shown, together with the amount which would be payable under any new arrangements which are proposed; the amount of outstanding capital commitments to be shown. I have already mentioned the Share and Loan Department's inquiries as to stock valuation. I do not think that the foregoing requirements have been put into writing and they can only be acquired by experience, but the Share and Loan Department is always helpful in giving advice or making suggestions, and it is important to see that the sponsoring brokers submit a draft of the accountant's report to it at an early stage so as to obtain any comments which it may wish to make.

Fourthly, the practice of showing an average of the profits for the whole or any period has now happily fallen into disuse in accountants' reports. This is a good tendency as averages are often misleading and they are therefore better omitted.

Time is often short in the last stages of a prospectus and, in order to save the time required to type the accountant's report and cram in columns of figures where they will not conveniently go, it is helpful to get the printers to run off copies on plain paper ready for signature. This is especially helpful where two firms of accountants are signing the report, with the result that the headed paper of neither is used.

Accountant's General Responsibility

Apart from his own report, the accountant has wider responsibilities in relation to a prospectus on which his name appears. He must, under the Act, approve the context in which his report appears. In broad terms, this means, 'Does the prospectus give a true and fair view of the past history, the present position and the future prospects of the company?' A particular illustration may perhaps be helpful in this respect. A draft of a prospectus was prepared in 1949 showing a good profit record for the ten years from 1939 to 1948 inclusive. The history paragraphs in the general body of the prospectus described the successful growth of the business since the beginning of the century. The accountant pointed out, however, that in the years 1929 to 1936 the company had made losses and he felt that his report would not appear in its proper context unless the existence of these losses (which occurred so recently before the years covered by his certificate) and the reasons for them, were explained. So far from weakening the prospectus, it strengthened it and more than one underwriter commented favourably upon the frankness with which the bad patch in the company's history had been referred to and explained. It does not follow that it is the accountant's task to verify every statement in the prospectus, but he should read it through most carefully to be sure that, so far as he is aware, it tells the whole truth and, so far as he knows any facts, that they are correctly set forth. In particular he should examine the paragraphs dealing with the profit and asset cover and, for reasons I shall explain in a moment, that part of the prospectus dealing with 'Future prospects'. The accountant's advice on these matters can be of great help to the issuing house and the solicitors in the drafting stages.

Future Prospects

In one respect I feel that the accountant has a general responsibility for a prospectus at least equal to his direct responsibility for his report. This is for the information given in the paragraphs relating to 'Future prospects'. If accounts have not been made up for more than six months since the last audited balance sheet, the Share and Loan Department prefers either that a six months' account shall be prepared or that the prospectus be deferred until the annual accounts are completed. If neither of these courses is possible, assurances as to current profits are required from the directors. Notwithstanding these safeguards, many months may elapse between the date of the last accounts and the date of the prospectus. I feel therefore that it is the accountant's duty to ascertain to the best of his ability what the profits have been up to the last possible date before the issue of the prospectus and, in the light of that information, to verify that the 'Future prospects' are fairly stated by the directors. In well-managed companies this is not usually very difficult as monthly or quarterly internal accounts are almost always available; it is in the less well managed companies, however, that the need for caution is greater. I suggest further that the accountant should make inquiries from the directors as to whether there are any circumstances within their knowledge which might affect current profits. As we may now be moving into a deflationary period the accountant should, in this connexion, ask specifically whether price reductions and stock losses have occurred since the last balance sheet date which would seriously affect current profits, or the current assets which are the subject of report in the statement of net assets. I do not feel it is necessary to go further into the detail of the various tests and inquiries which the accountant can make, but it is not overstating the case to say that unless he can satisfy himself that the 'Future prospects' are fairly stated he should not allow his name to appear on the prospectus.

[1] *The Accountant*, June 4th, 1949.

FINANCE AND COMMERCE

The Budget has at least removed some of the uncertainty from stock markets. Inevitably, however, while some questions have been answered new ones have been posed. Markets have not as yet had time fully to reflect the changes in conditions.

Tobacco Profits

We reprint this week the accounts of The Imperial Tobacco Co (of Great Britain and Ireland) Ltd. They are worth going through. This is the great tobacco business built up to hundreds of millions by the devotees of My Lady Nicotine who in their worship put £600 million a year in the tax-gatherer's collection. There is also involved in these accounts a particular point of accounting interest. To see it clearly we must go back to the previous year's accounts where the matter arose. For the year to October 1950 the consolidated trading profit was shown as £15,671,302 as compared with £16,796,802. Reference was made to Note 1 which explained that the greater part of the American and Canadian tobacco used in manufacture during the year was purchased before sterling was devalued and, therefore, at a lower sterling cost than that based on the then present rates of exchange. In order to reflect the increase in replacement cost due to devaluation, the cost of all dollar tobacco cleared from bond for manufacture during the year was converted to sterling at post-devaluation rates for the purpose of arriving at the year's trading profit.

The special surplus arising from the sterling conversion at post-devaluation rates was dealt with in a separate item in the profit and loss account. We reprinted this item in our issue of April 14th, 1951. The special surplus amounted to £6,209,000 from which was deducted £620,900 for profits tax and £2,514,645 was reserved for future income-tax, leaving £3,073,455 which was transferred to leaf replacement reserve. This treatment of the special surplus appeared as an inset, the profit and loss account being entirely unaffected.

First Impression Counts

This year, the treatment of the special surplus has been changed. It will be seen within 'trading profit including special surplus' in a total of £23,284,604. The 1950 figure has been adjusted to make the comparison and is given as £21,880,302. Note 1, as before, explains how a substantial part of the dollar tobacco cleared from bond for manufacture was bought before devaluation and therefore at a lower sterling cost than that based on present exchange rates and that the difference was £2,845,000 against £6,209,000. The Note concludes: 'This has been regarded as a special surplus and the net amount after deducting income-tax and profits tax is transferred to leaf replacement reserve.' There is no explanation why the surplus is this time included with the trading profit but the company, we may presume, has been well advised on the matter.

We regard it as rather unfortunate that the change has been made in this way because it takes away from the profit figure the consistency of statement without which the view of profits over the years is obscured. If the surplus must be included with the trading profit, it could at least be shown as a separate item below the trading profit and the two then added. This would have shown that on the basis used in 1950, the trading profit this time is up by some £4⅝ million as compared with the increase of under £1½ million a year previously. Admittedly all the information is there on which this comparison can be reached but it is not the first impression and first impressions do count in accounts.

Experience Teaches

Experience teaches. We learn by our mistakes. The way other people have surmounted their difficulties provides equally valuable knowledge. What, for instance, should be done if the odd chance in millions turns up and an error is found in accounts after they have been sent to shareholders? Nothing vital, but an error nevertheless that must be corrected. This situation was discovered after the accounts of Burgess Products Company Ltd had been sent out and was dealt with by a letter to shareholders in the following terms:

> 'It is very much regretted that in the directors' report and in the published accounts for the year ended July 31st, 1951, owing to an error in calculation, the provision for the dividend on the ordinary shares was incorrectly shown at £10,688 instead of the correct figure of £11,813.
>
> 'As a consequence, the balances carried forward both in the profit and loss account and the consolidated profit and loss account are overstated by £1,125. In the balance sheet and the consolidated balance sheet, the revenue reserves are overstated by £1,125 and the current liabilities are understated by the same amount.
>
> 'At the annual general meeting to be held on February 12th, 1952, you will be asked to approve the published accounts amended in accordance with the terms of this letter.'

The situation is so extremely rare that the citation of an actual case will prove interesting and useful.

Money Market

With applications down by £10 million at £239,220,000 the market obtained 75 per cent of its Treasury bill requirements on March 7th by maintaining the bid at £99 14*s* 10*d*. The average rate rose to £1 0*s* 7·09*d* per cent, the highest level recorded since the new monetary policy came into operation. This week's offer is maintained at £200 million. There is no Treasury deposit receipt call.

THE IMPERIAL TOBACCO CO (OF GREAT BRITAIN AND IRELAND) LTD

PROFIT AND LOSS ACCOUNT for the year ended October 31st, 1951

1950 £		£	£
19,706,459	**(i) Trading Profit including Special Surplus** (See Note 1*) ..		19,206,280
	(ii) Dividends and Interest from		
946,653	Subsidiaries	828,347	
2,628,421	Trade Investments	2,807,014	
13,405	Other sources	3,444	
3,588,479			3,638,805
23,294,938	**(iii) Profit for Year including Special Surplus** (before charging United Kingdom Taxation)		22,845,085
	(iv) United Kingdom Taxation		
	(i) Estimated to be payable on profit for the year including Special Surplus:		
4,010,900	Profits Tax	5,279,500	
8,484,645	Income-tax: including £7,113,587 (*1950 £7,130,182*) set aside to Reserve for future Income-tax	8,131,238	
		13,410,738	
—	(ii) Additional Income-tax payable on 1950 Profits owing to change in standard rate	393,568	
12,495,545			13,804,306
10,799,393			9,040,779
	(v) Transfer to Leaf Replacement Reserve of Special Surplus		
3,073,455	Net amount (after deducting United Kingdom taxation) .. (See Note 1*)		1,344,262
7,725,938	**(vi) Balance of Profit for Year Available for Appropriation** ..		7,696,517
	(vii) Appropriations		
—	General Reserve	800,000	
	4 per cent Unsecured Loan Stock 1960–70:		
578,392	Discount and expenses written off	—	
578,392			800,000
7,147,546			6,896,517
	(viii) Dividends Paid and Proposed		
	Preference Stocks:		
234,357	Half-year to April 30th, 1951 (paid) less Income-tax ..	223,705	
234,357	Half-year to October 31st, 1951 (payable) less Income-tax	223,705	
	Ordinary Stock:		
2,789,057 (13½%)	Interim dividend of 13½ per cent, less Income-tax.. ..	2,662,281	
3,822,040 (18½%)	Proposed final dividend of 18½ per cent less Income-tax, making with the interim dividend 32 per cent less Income-tax	3,648,311	
7,079,811			6,758,002
£67,735	**(ix) Balance of Profit for Year transferred to Balance Sheet** ..		£138,515

[*Note not reproduced – *Editor*.]

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended October 31st, 1951

1950 £		£	£
21,880,302	**(i) Trading Profit including Special Surplus** (See Note 1*) ..		23,284,604
	(ii) Dividends and Interest from		
2,628,421	Trade Investments	2,807,014	
18,570	Other sources	16,528	
—	Interest on War Damage claims	151,332	
2,646,991			2,974,874
24,527,293	**(iii) Profit for Year including Special Surplus** (before charging United Kingdom Taxation)		26,259,478
	(iv) United Kingdom Taxation		
	(i) Estimated to be payable on profit for the year including Special Surplus:		
4,433,959	Profits Tax	6,549,521	
8,767,847	Income-tax: including £8,398,625 (*1950 £7,744,452*) set aside to Reserve for future Income-tax ..	9,189,459	
		15,738,980	
—	(ii) Additional Income-tax payable on 1950 Profits owing to change in standard rate	427,893	
13,201,806			16,166,873
11,325,487			10,092,605
	(v) Transfer to Leaf Replacement Reserve of Special Surplus		
3,073,455	Net amount (after deducting United Kingdom taxation) .. (See Note 1*)		1,344,262
8,252,032	**(vi) Balance of Profit for Year Available for Appropriation** ..		8,748,343
	(vii) Profits Applicable to Shares in Subsidiaries held outside the group		
14,933	Preference Shares (Dividends paid and proposed, less Income-tax)	13,967	
	(viii) Appropriations		
517,439	Revenue Reserves	1,854,920	
	4 per cent Unsecured Loan Stock 1960–70:		
578,392	Discount and expenses written off	—	
	(ix) Dividends Paid and Proposed		
	Imperial Tobacco Co:		
468,714	Preference Stocks (less Income-tax)	447,410	
6,611,097	Ordinary Stock (less Income-tax)	6,310,592	
8,190,575			8,626,889
61,457	**(x) Balance**		121,454
	(xi) Balance at November 1st, 1950		
2,394,079	Imperial Tobacco Co	2,461,814	
535,922	Subsidiaries	529,644	
2,930,001			2,991,458
	(xii) Balance at October 31st, 1951		
2,461,814	Imperial Tobacco Co	2,600,329	
529,644	Subsidiaries	512,583	
£2,991,458			£3,112,912

THE IMPERIAL TOBACCO CO (OF GREAT BRITAIN AND IRELAND) LTD
and its Subsidiaries

CONSOLIDATED BALANCE SHEET, October 31st, 1951

1950 £			Authorized in shares of £1 each £	Issued and converted into stock £
	Capital of the Imperial Tobacco Co			
4,959,249	'A' 5½ per cent Cumulative Preference ..		6,000,000	4,959,249
5,260,469	'B' 6 per cent Non-cumulative Preference		6,000,000	5,260,469
2,630,210	'C' 10 per cent Non-cumulative Preference		3,000,000	2,638,218
37,563,049	Ordinary		40,000,000	37,563,049
50,420,985			55,000,000	50,420,985
	Capital Reserves			
4,102,718	Excess Profits Tax post-war refund (provisional amount)		4,102,718	
738,094	War Damage Reinstatement and other Capital Reserves		751,339	
4,840,812				4,854,057
	Revenue Reserves and Surplus	Imperial Tobacco Co	Subsidiaries	
39,852,594	Reserves	£38,221,067	4,841,231	
2,991,458	Profit and Loss Account	2,600,329	512,538	
42,844,052		40,821,396	5,353,814	
7,744,452	Reserves for future Income-tax	7,113,587	1,285,038	
50,588,504		47,934,983	6,638,852	54,573,835
	Outside Interests in Subsidiaries			
49,000	Ordinary shares		—	
324,724	Preference shares		315,861	
373,724				315,861
	Loan Capital			
10,000,000	3 per cent Ten Year Notes, 1950–55		10,000,000	
10,000,000	3½ per cent Ten Year Notes, 1953–58		10,000,000	
5,200,000	4 per cent Unsecured Loan stock, 1960–70		20,000,000	
25,200,000				40,000,000
	Deferred Liability			
1,811,841	Amounts provided for obligations to Pension Schemes (See Note 2*)			1,650,271
	Current Liabilities and Provisions			
24,054,009	Creditors, taxation and accrued liabilities		24,934,114	
1,596,435	Provisions		1,768,224	
6,157,950	Acceptance Credits		5,000,000	
28,344,923	Bank Overdrafts		34,475,490	
	Dividends on Preference Stock and Shares (*less* Income-tax) accrued at October 31st, 1951:			
234,357	Imperial Tobacco Co	£223,705		
7,441	Subsidiaries (outside shareholders)	6,935		
			230,640	
	Proposed final dividend on Ordinary Stock (*less* Income-tax):			
3,822,040	Imperial Tobacco Co		3,648,311	
64,217,155				70,056,779
£197,453,021				£221,871,788

1950 £		£	£	£
	Fixed Assets			
	Land and Buildings:			
13,791,197	At cost and at valuation	14,625,721		
203,163	At book value on July 1st, 1948	203,163		
13,994,360		14,828,884		
5,033,177	*Less* Provision for depreciation	5,269,732		
8,961,183			9,559,152	
	Plant, Machinery, etc.:			
15,674,182	At cost and at valuation	17,500,478		
341,986	At book value on July 1st, 1948, *less* proceeds of sales	339,733		
16,016,168		17,840,211		
9,073,246	*Less* Provision for depreciation	9,882,668		
6,942,922			7,957,543	
	Goodwill, Patent Rights and Trade Marks:			
9,947,009	At cost, *less* proceeds of sales	9,947,009		
229,298	*Less* Amounts written off	229,298		
9,717,711		9,717,711		
58,367	Arising on the incorporation of the book value of the net assets of Subsidiaries in the Consolidated Balance Sheet	64,382		
9,776,078			9,782,093	
25,680,183				27,298,788
	Trade Investments			
10,814,202	Shares (quoted) at cost (Market value: *1950 £45,067,345:* 1951 £46,149,959)		11,169,707	
477,117	Shares (not officially quoted) at cost		477,117	
876,211	Loans		878,070	
12,167,530				12,524,894
	Current Assets			
111,061,563	Stock at approximate cost and advances to leaf buying organizations abroad		130,369,308	
47,285,422	Debtors		51,066,003	
770,357	War damage claims: estimated amount recoverable		172,316	
57,195	General Investments		57,889	
430,771	Bank balances and cash in hand		382,590	
159,605,308				182,048,106
£197,453,021				£221,871,788

[*Note not reproduced – Editor.]

P. V. ROBERTS,
Chartered Accountant,
Chief Accountant.

R. J. SINCLAIR, *Chairman.*
G. W. ANSON, *Deputy Chairman.*
E. J. PARTRIDGE, *Secretary.*

CURRENT LAW

Two Wills: Conflict

A testatrix made two wills, one in 1939 and the other (deemed to have been made) in 1940, the latter declaring that it was the last will but not expressly revoking former wills. Similar bequests were made to the same persons, except that six legacies were not specifically mentioned in the second will.

Roxburgh, J., held that the trusts of the second will must be construed as in substitution for the similar trusts in the first in so far as they were similar, but as the first will had been admitted to probate the legacies mentioned in the first, but not in the second will, must be considered as subsisting. (*Re Plant (decd.), Johnson v. Hardwicke and Others* (*Law Journal*, January 4th, 1952).)

Misrepresentation by Agent

In *Armstrong and Another v. Strain and Others*, the first defendant's agent innocently represented to the plaintiff that a bungalow for which the latter was negotiating was structurally sound. The defendant was aware of the defect but had not instructed his agent to make the statement; nor had he deliberately withheld the information.

The Court of Appeal held that the action for damages for fraudulent misrepresentation failed. There was no actual fraud or dishonesty, and knowledge by the defendant of facts which showed to be false a statement innocently made by his agent did not render him guilty of fraudulent misrepresentation. (*Law Notes*, January 11th, 1952.)

Corporate Trustee: Renunciation

The Accountant for July 28th, 1951, dealt with the decision given against the bank by Finnemore, J., in *Tiger v. Barclays Bank Ltd.* The Court of Appeal dismissed the appeal.

The bank renounced probate and two residuary legatees, having taken out a grant of administration, sought for the delivery by the bank to them of all documents in the bank's possession relating to the administration of the estate. The defendants asserted that they were first entitled to a full release from liability.

The Court held that the bank could not now raise the point that the order should not include interdepartmental documents brought into existence by them in the ordinary course of business as a trust corporation or as bankers to the estate; *per incuriam*, that such correspondence and memoranda cannot be considered exempt, unless it be such that if it related to the deliberations of natural trustees it would be exempt from production. It was further held that the successors to a bank trust corporation ought to be in no worse position than if the bank had not at the same time been bankers to the trust. (*Law Times*, January 11th, 1952.)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Directors' Names on Stationery

SIR, – The writer has consulted a number of books regarding the requirements of showing directors' names on stationery, and there seems to be no definite instructions as to what stationery should carry such names. For example, taking some invoices and letter-headings at random, some 50 per cent showed the directors' names whilst the balance were completely devoid of any information.

It would be interesting to know what exactly is required. The writer has always understood the position to be that any stationery upon which matter was written, and which could be the subject of a contract, should contain a list of the directors.

Views and comments would be appreciated.

Yours faithfully,

D. B. L.

[The lack of uniformity is probably due to the fact that the requirement referred to does not apply to a company which was registered before November 23rd, 1916, unless it is licensed under the Moneylenders Act, 1927, or was incorporated outside Great Britain and has established a place of business in Great Britain since November 22nd, 1916. (Companies Act, 1948, Section 201 (2).) Where the requirement does apply it extends to all trade catalogues, trade circulars, 'showcards' and business letters on or in which the company's name appears and which are issued or sent by the company to any person in any part of Her Majesty's dominions. 'Showcard' means cards containing or exhibiting articles dealt with, or samples or representations thereof. Companies to which the requirement applies may in special circumstances and subject to special conditions obtain exemption from the Board of Trade. (Section 201 (1).) – Editor.]

Are the Figures Any Use?

SIR, – Mr J. Clayton's excellent article 'Are the figures any use?', in your issue of March 1st, 1952, raises some interesting points.

It would not seem illogical to show the reserve separately created and appearing as a charge in the profit and loss account as a deduction from the value of stock in the balance sheet; it is commonly shown as a liability on the balance sheet. Nor would it seem unreasonable to allow this additional amount for income-tax purposes. Certainly stocks should never be written up to replacement value.

The primary cause of inflation would appear to be

too many people doing the wrong kind of jobs for too much money; at any rate in relation to pre-war standards.

Mr Clayton's statement that the sale of the motor-car out of covenant would not add to the national income but would certainly mean a profit to him is a little odd. Certainly if he were never to own a car again it would mean a capital profit, but if he were to buy another car later it would most probably cost him more and part at least of his £500 should go towards providing it.

It is very true that the instance quoted of directors questioning the sanity of persons demanding payment in units of the same value as the original purchasing power of the investment is a good argument against complex attempts at 'revalorization', but the statement that replacement cost accounting benefits debtors and is detrimental to the owners of cash and fixed interest securities calls for some comment. Mr Clayton says in his article that his ideas on accounting are old-fashioned. One such old-fashioned principle is the inclusion of all known liabilities at the time of the balance sheet, and, if to replace stocks is to cost more, provision should be made for such event, unless the intention is to close down. If provision is made the preference or ordinary stock-holders can hardly complain if their interests are being directly or indirectly protected.

In part of his article, Mr Clayton quotes the Federation of British Industries:

> 'It is clear, therefore, that the levels of prices and profits have not been excessive, but too low to sustain the burden of taxation under existing methods of computation and to maintain the productive capacity of industry.'

It does seem that one major factor contributing to the above state of affairs might be the tendency of British industry until recently to ignore replacement costs and to provide for as little taxation as possible out of current profits, thus increasing immediate dividends at the price of future security, and obscuring the true state of affairs.

If replacement cost accounting does, in fact, insulate the equity shareholder alone, it would appear to be justifiable. The only remedy for the preference-holder is increased fixed dividends, if he can get them, or another investment.

It seems, alas, to be true that, as far as personal income goes, Mr Clayton is being 'swindled to the extent of £200 per year' but no one seems to consider poor unfortunate individuals, and, as the said poor individuals tend to live for the day, and not to think in terms of replacement cost accounting, not much is likely to be done about it!

Yours faithfully,

Caterham, Surrey. K. H. WEST.

SIR, – I have read with amusement and appreciation Mr J. Clayton's article in the March 1st issue of *The Accountant*.

I would like to take his figures just a little further:

$$\begin{array}{rll}
 & A & = B \\
 & A^2 & = AB \\
 & A^2 - B^2 & = AB - B^2 \\
 & (A+B)\ (A-B) & = B(A-B) \\
 & A+B & = B \\
 & 2B & = B \\
 & 2 & = 1 \\
\text{Continuing:} & 2-1 & = 1-1 \\
 & 1 & = 0 \\
 & 1{,}000 & = 0 \\
 & 5{,}000 & = 0 \\
 & \textit{ad infinitum.} &
\end{array}$$

Therefore: (1) *All* figures have the same value.
(2) o (nothing) can be equal to anything.

Odd, isn't it? Or is it even?

Yours faithfully,

Evesham, Worcs. WILFRED TULLETT.

Reserve for Bad Debts?

SIR, – I am preparing the accounts of a limited company in which it is the custom to keep a 'provision for discount' in the balance sheet equal to 2½ per cent of 'debtors'. Recently, however, nearly all customers have paid a net price so that the discounts actually allowed have been of negligible amount. During the year under review 'debtors' have increased by 50 per cent. The directors wish to continue the custom, which would mean that the profit and loss account would show a substantial charge for 'discount'.

I am objecting that this figure would actually be nothing of the sort, but in effect a transfer to a provision, or rather reserve, for bad debts; the profit and loss account would not therefore be properly drawn up.

I should be very pleased to hear any opinions as to whether or not I am taking too narrow a view.

Yours faithfully,

B.COM., C.A.

Discounts

SIR, – Quite recently I received at the office an invoice rubber-stamped as follows:

> 'The usual settlement discount has been deducted from our prices and this invoice is rendered net one month.'

I should be interested to know whether, in the experience of your readers, this practice is common, and, if so, in what manner, if any, the discounts account in the nominal ledger is affected, particularly where the volume of transactions involved is substantial.

Yours faithfully,

Crawley, Sussex. D. A. J. WELCH, A.C.W.A.

Should Balance Sheets be 'adopted'?

SIR, – Press reports of company meetings often conclude with the words 'The report and accounts were adopted'. The directors' report normally contains recommendations submitted to the members for their approval or rejection. Adoption of the report therefore presumably means approval by the members of the directors' proposals regarding

payment of dividends, re-election of directors, etc.

Is there any question, however, of the balance sheet etc. requiring the approval of, or adoption by, the members? The Companies Act appears merely to lay down that the balance sheet etc. are to be laid before the company at the annual general meeting. Have the members any power to 'adopt' or to refuse to 'adopt' the balance sheet etc.?

Yours faithfully,
J. R. M.

Progression in Personal Taxes

SIR, – The interesting and instructive article by Mr E. B. Nortcliffe, B.COM., F.R.ECON.S., on 'Progression in personal taxes' in your issue of February 2nd, calls for some further discussion on two points:

(1) In computing the rate of progression, the author excludes the tax-free portion of income and thus considers the United Kingdom income-tax proportional in the range from full rate to surtax level. Although the second derivative of the tax function is zero over this range, the average tax rate $\left(\frac{f(x)}{x}\right)$ is increasing, and by common usage the tax is progressive at a diminishing rate. How a tax formula operates, either through increasing tax rates, or through fixed tax rates with abatements and rebates (South Africa) are technicalities which affect the rate of progression, but do not make a tax proportional.

(2) An arithmetically correct progressive scale between the existing lower and upper limits and without regard to the tax-free income would not establish an equal sacrifice tax. Similar suggestions figure in some evidence to the Royal Commission.

If $F(x)$ is the total satisfaction of the untaxed income x and $f(x)$ the tax function, then by definition of an equal sacrifice tax

$$F(x)-F\,[x-f(x)] \text{ is constant, and}$$
$$F'(x)-d\,F\,[x-f(x)]/d\,x=O, \text{ or}$$
$$[1-f'(x)].\,F'\,[x-f(x)]=F'(x), \text{ i.e.}$$

for an equal sacrifice tax the marginal utility of the taxed income, multiplied by the supplement of the marginal tax rate $(1-f'(x))$ must equal the marginal utility of the untaxed income. If it is less, the 'sacrifice' will be greater than for the next smaller income and a disincentive effect will exist, its extent depending on the elasticity of work supply.

Example:

$x=£416, \frac{f(x)}{52}=21s$ for an unmarried person,

$f'(x)=4s\ 5d.$

It can be well said that the marginal 15*s* 7*d* at the net income of £6 19*s* means less to a single person than the last 20*s* at the gross income of £8 (or the last $\frac{3}{4}d$ of the net income and the last 1*d* of the gross income).

This still does not take into account that for short-term fluctuations of earnings the marginal utility $F'(x)$ is constant.

The above example, which was chosen at an income not yet subject to the full rate, clearly shows that the sudden onset of the 9*s* 6*d* rate is not the main cause of the deterrent effect on additional earnings, although it aggravates the effect. An equal sacrifice tax is possible only by wide changes in the tax distribution, probably involving increased taxation for lower incomes. The alternative to this is to counteract the 'announcement' effect of the steeply progressive taxation, e.g. by changes in the tax collection from current earnings.

An arithmetically improved progressive tax between the existing upper and lower limits, however, will be a useful and desirable instrument for its restricted purpose. Yours faithfully,

York. F. H. HUGHES.

Receiverships

SIR, – In your issue of January 20th, 1951, you were kind enough to print a letter from Mr S. R. Hogg on this subject. I wonder if he, and other chartered accountants in practice, could combine in some way to seek and secure an understanding of the manner in which a receiver should present the statement of a company's affairs to the Registrar of Companies. I have been having just the same troubles on the matters referred to by Mr Hogg.

When a receiver is appointed, a director and a secretary of the company must present a complete statement of affairs to the receiver, and this statement must be in the prescribed manner on Form 109. This form is broken down by the attachment of various lists. Many queries arise in connexion with these documents. Some of them are these:

Although the Form 109 is sworn as an affidavit the lists also have to be signed – what is the reason? There is a space on each of the lists for the signature by two persons, but there is no authority for compelling the two persons to sign. On the list intended for details of trade debtors, the debtor's occupation is required – why? List 'F' which summarizes the factors of the past three years that bring about the deficiency or surplus seems most confusing.

Then there are other queries such as these: Under Section 373 of the Companies Act the receiver shall allow the directors such expenses as are reasonable; but who construes the words 'reasonable'? If a liquidator is appointed immediately following the appointment of a receiver, must the liquidator give the company's books to the directors so that they may prepare a statement for the receiver? If the company's secretary is in salary and secures another job, can he be compelled somehow to sign the statement of affairs? The receiver must prepare a summary of the statement and send the summary to the Registrar, but there is no prescribed form for the summary. The receiver has also to send to the Registrar his comments; if they criticize any action of the directors, is the Registrar compelled to take any action and, if so, what? Yours faithfully,

CACONFUSED.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At a special meeting of the Council held on Wednesday, February 27th, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair, Mr T. B. Robson, M.B.E., Vice-President, Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs B. H. Binder, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, S. H. Gillett, M.C., P. F. Granger, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, J. S. Mackenzie, K. A. E. Moore, S. J. Pears, P. M. Rees, M.C., G. F. Saunders, K. G. Shuttleworth, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, A. D. Walker, H. B. T. Wilde, with the Secretary and Assistant Secretaries.

Royal Commission on the Taxation of Profits and Income

The Council considered a draft memorandum prepared for submission to the Royal Commission on the Taxation of Profits and Income, dealing with matters falling under Part B of the notice issued by the Royal Commission. It was resolved:

(*a*) That copies of the memorandum, when submitted to the Royal Commission, be issued to the Press and to any member of the Institute who may wish to apply for a copy.

(*b*) To record the Council's great appreciation of the work done by all concerned with the preparation of the draft memorandum, particularly the drafting sub-committee of the Taxation Sub-Committee of the Taxation and Research Committee which undertook the major drafting work, those members of the Parliamentary and Law Committee who were particularly concerned in the preparation of the draft and the members of the taxation and research committees of the district societies of chartered accountants.

At special and ordinary meetings of the Council, held on Wednesday, March 5th, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, S. H. Gillett, M.C., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, J. S. Mackenzie, K. A. E. Moore, P. Morgan-Jones, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, E. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T. Wilde, with the Secretary and Assistant Secretaries.

Presentation of Prizes

In presenting the following prizes to the under-mentioned candidates, who were able to attend the meeting of the Council, the President said:

Gentlemen,

For the second time during my year of office as President of the Institute it is my pleasant duty to present the prizes and certificates of merit awarded to candidates who sat at recent examinations and, on behalf of the Council, to congratulate them on their success.

In these days there are far too many people who expect something for nothing as a right or who are so spoon-fed that they are rapidly losing the power of thinking for themselves. The fact that you are standing before me today clearly lifts you out of both categories; but, having used your ability to such good purpose, do not imagine that you can now sit back and take things easily.

To those who come as prizewinners in the Intermediate examination I would say let your success be an inspiration to set about your preparation for the Final with renewed zest. To a young person two years seem a long time; but it passes all too soon and I would stress the importance of getting down to your Final studies immediately and of avoiding a hectic rush during the six months preceding the examination.

Do your work methodically and steadily and do not neglect the pursuit of your favourite pastimes during the week-ends. A complete change from office routine and examination work is most invigorating.

The prizewinners in the Final examination have cleared successfully the last hurdle so far as the Institute examinations are concerned but I must warn them that even stiffer fences lie ahead.

You are now entitled to become Members of the Institute, an honourable estate but one which also carries its responsibilities. Whether you ultimately decide to adopt a professional career as a practising accountant or whether you decide to enter commerce as an accountant in industry, you must proceed with a determination to give of your very best and never to relax. There is no room for the slacker and he very soon falls by the way.

Most, if not all, of you have taken advantage of the facilities afforded by the District Societies and by the Students' Societies. These Societies are run on a voluntary basis and the time has now come for you to make a contribution to their efforts. By this, I mean that you should become a member of your local Society and take an active interest in its proceedings. By doing so, you will be helping others in the future as you have been helped in the past.

To the prizewinners in both examinations I offer my heartiest congratulations. (Applause.)

Final Examination

First Certificate of Merit, the Institute Prize, the 'Walter Knox' Scholarship, the 'O. C. Railton' Prize for the year 1951 and the 'Plender' Prize for the Advanced Accounting (Part II) Paper

Hann, Harry Edwin (F. H. Cropp), London.

Second Certificate of Merit
Masters, William Frederick (G. W. Wilks), London.

Third Certificate of Merit, the 'W. B. Peat' Medal and Prize, the Auditing Prize and the 'Plender' Prize for the Auditing Paper
Collis, Frank (R. Kandler), London.

Fourth Certificate of Merit
Mellows, Peter James (C. R. Goulder), London.

'Plender' Prize for the English Law (Part I) Paper
Brooman, J. C. (E. E. Spicer), London.

'Plender' Prize for the General Financial Knowledge and Cost Accounting Paper
Couldery, F. A. J. (C. R. P. Goodwin), Brighton.

'West' Prize
Harvey-Barnes, J. E. (H. R. Sewell), Birmingham.

'Roger N. Carter' Prize
Moore, A. D. (J. P. Moore), Bury.

Intermediate Examination

Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prizes for the General Commercial Knowledge and the Auditing Papers
Sherman, Hyman Arnold (L. W. Bingham), London.

Eighth Certificate of Merit and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) Paper
Brooks, Richard Simon (A. C. C. Oddie), Bristol.

Eighth Certificate of Merit
de Selincourt, Derek Robin (L. C. Beecroft), London.

Twelfth Certificate of Merit
Secrett, Kenneth Edward (R. W. Young), London.

Fourteenth Certificate of Merit
Johnson, George Thomas (A. H. Covington), London.
Marment, Alan (J. G. Imray), London.

'Plender' Prize for the Book-keeping and Accounts (Partnership) Paper
Youngman, D. T. E. (F. C. Gibbons), Hastings.

Exemptions from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

One application under bye-law 63 (*a*) for exemption from the Preliminary examination was acceded to and one application was not acceded to.

Reduction in Period of Service under Articles

One application under bye-law 63 (*c*) for a reduction in the period of service under articles was acceded to.

Six applications under bye-law 61 for a reduction in the period of service under articles were acceded to and one application was not acceded to.

Exemption from the Intermediate Examination

Four applications under bye-law 85 (*b*) for exemption from the Intermediate examination were acceded to and one application was not acceded to.

One application under bye-law 63 (*d*) for exemption from the Intermediate examination was acceded to.

Appointment while Serving under Articles

Two applications under bye-law 57 from an articled clerk for permission to accept an appointment while serving under articles were acceded to.

Final Examination

Two applications under bye-law 63 (*e*) for permission to sit an earlier Final examination were acceded to.

Changes of Name

The Council decided that the following changes of name be made in the Institute records:

Smith, Michael Stuart, M.B.E., A.C.A., to Stuart Smith, Michael.
Smethurst, Carl Alistair Wintringham, A.C.A., to Smethurst, Carl Wintringham.
Waddington, Eric Jones, A.C.A., to Cockson-Jones, Eric Jones.
Finesilver, Joseph David, A.C.A., to Finlay, Gerald.

Companies Act, 1948, Section 161 (2): Employee of Auditor acting as an Officer of the Company

The Council decided to issue the following statement:

(1) Section 161 (2) of the Companies Act, 1948, provides that none of the following persons shall be qualified for appointment as auditor of a company:
(*a*) An officer or servant of the company;
(*b*) A person who is a partner of or in the employment of an officer or servant of the company;
(*c*) A body corporate.
except that item (*b*) does not apply in the case of a private company which at the time of the auditor's appointment is an exempt private company.

(2) In 1948 the Council of the Institute took the joint opinion of counsel on the section of the Companies Act, 1947, which is now Section 161 (2) of the Companies Act, 1948. Counsel gave the opinion that there is nothing to prevent an accountant whose employee acts as director, secretary or otherwise as an officer of the company, from acting as auditor of the company. This opinion is recorded in paragraph 23 of the Institute's booklet on the Companies Act, 1947.

(3) Of the three counsel who gave the opinion recorded in paragraph 23 of the booklet, only two are now available and they have been asked to say whether this view of the law applies in the case where the accountant has the right to control those activities of the employee which relate to his duties as director, secretary, or other officer of the company. They are of opinion that an accountant is disqualified from acting as auditor where he has the right to control such activities because in such circumstances the accountant would be held to be a *de facto* director, secretary or officer. The statement in paragraph 23 of the booklet is correct provided the employee exercises an independent judgment when so acting, but it is not correct where the employee acts under the control of the accountant. Counsel have accordingly advised that if an auditor allows an employee to act as director, secretary, or other officer of the company of which he is auditor, it should be made clear to the employee, and be placed on record, that such employee is to act as director, secretary or other officer free from any control by his employer, the auditor; and, while so acting, the employee must be left free to exercise his own judgment independently of the auditor.

(4) Where the director, secretary or other officer is the employee of a firm of accountants, counsel consider that the considerations which arise where the firm are auditors of the company are not different from those which arise where one partner of the firm is the auditor. The employee is a servant of the firm and if by reason of the facts the firm is to be considered *de facto* the director, secretary or other officer of the company, it is the firm and each of its partners who are disqualified from appointment as auditors.

(5) In paragraph 21 of the Institute's booklet on the Companies Act, 1947, which dealt with the appointment of the registrar, the opinion of counsel was given to the effect that if the contract is one 'for services' (as distinct from one 'of service' which would make the registrar a servant of the company) then an accountant would not be disqualified from

appointment as auditor if he or his partner or employee acted as registrar. Counsel now state that the distinction between the case of the registrar and that of the secretary is that the registrar is not, and the secretary is, an officer of the company; and that the registrar need not be a servant (his contract may be 'for services' and not 'of service') while the secretary is always a servant of the company.

Accountant's Lien

The Council approved a further statement regarding an accountant's lien, in amplification of that given on page 142 of the supplement to the members' handbook, for inclusion in the next supplement to the handbook.

Royal Commission on the Taxation of Profits and Income

The draft memorandum referred to in the report of the special meeting on February 27th, 1952, was further considered and the memorandum was approved for submission to the Royal Commission on the Taxation of Profits and Income.

Articled Clerk in Industrial Organization

One application under bye-law 58 (*c*) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Publication of the Examination Results of individual candidates

In view of certain instances to which its attention has been drawn the Council wishes to emphasize to members that notices in the Press relating to the examination success of an individual candidate should not contain any element of undesirable publicity through the inclusion of the name and address of the firm of the principal, photographs and other unnecessary details.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following twenty-five associates who have commenced to practise:

Bassett, Arthur Austin; 1940, A.C.A.; 192 Lichfield Road, Bloxwich, Walsall.
Beaver, David William; 1951, A.C.A.; (Beaver, Bowen & Co), Rawcliffe Chambers, 1 Houghton Street, Southport.
Booth, Trevor William Edwin; 1950, A.C.A.; (E. A. Radford, Edwards & Co), 52 Brown Street, Manchester, 2.
Butler, Ian Geoffrey, M.A.; 1951, A.C.A.; (*Tansley Witt & Co), 22–24 Ely Place, London, EC1.
Carr, Bernard Horace; 1951, A.C.A.; Mumford's Farm, Mumford's Lane, Chalfont St Peter, Bucks.
Garner, Roy; 1950, A.C.A.; (Scot Simmonds & Co), Bank Buildings, 72 High Street, Teddington, Middlesex.
Gisby, Edgerton Arthur Willett; 1935, A.C.A.; (*Davies Bros & Co), 27 Clement's Lane, Lombard Street, London, EC4.
Hailstone, Frank Nelder; 1951, A.C.A.; 46 New Road, Basingstoke.
Hart, Anthony Harry; 1950, A.C.A.; (Gilroy, Ruck & Jenkins), 7 New Court, Lincoln's Inn, London, WC2, and at Dartford.
Hawdon, Sidney; 1951, A.C.A.; 14 Front Street, Cleadon Village, Sunderland.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Henson, David; 1951, A.C.A.; (J. C. Graham & Spoor), Art Gallery Chambers, 5 Higham Place, Newcastle upon Tyne, 1.
Hinings, Peter Hugh; 1951, A.C.A.; (Herbert Hill & Co), 18A High Street, Marlborough, Wilts, and at London.
Hudson, Derek Ernest; 1951, A.C.A.; 83 Watford Way, Hendon, London, NW4.
Isaacs, Samuel Leonard; 1950, A.C.A.; 3 Brentfield Gardens, Hendon Way, London, NW2.
Lucas, Howard Spencer; 1951, A.C.A.; (A. C. Lucas & Son), Brettenham House, Lancaster Place, Strand, London, WC2.
Moyes, Kenneth Meek; 1951, A.C.A.; (Brown & Piper), 56 John Street, Sunderland, and at Houghton-le-Spring.
Muxworthy, Donald Crispin, B.SC.(ECON.); 1940, A.C.A.; 31 Quaker's Lane, Potters Bar, Middlesex.
Parkinson, Ernest Joseph; 1950, A.C.A.; (*Frederick C. Riley & Co), 8 Yorkshire Street, Burnley.
Renaut, Derek Anthony; 1950, A.C.A.; 13 Templars Avenue, Golders Green, London, NW11.
Spruce, Eric Wilfred; 1951, A.C.A.; (French, Wallis & Co), Groat House, Collingwood Street, Newcastle upon Tyne, 1, and at North Shields.
Tonkinson, David Harry; 1951, A.C.A.; (D. H. Tonkinson & Co), 6 Bartholomews, Brighton, 1.
Townend, Peter William; 1951, A.C.A.; (K. W. Howarth & Co), Royal Insurance Buildings, Silver Street, Halifax, and at Morecambe; also at Todmorden (*W. Garsed & Co).
Walker, Jeffery Maxwell; 1950, A.C.A.; (*Leigh, Butler & Walker), Argyle House, 29–31 Euston Road, London, NW1.
Webb, Philip Dalton, B.A.(COM.); 1951, A.C.A.; (Webb, Hanson, Bullivant & Co), 90 Deansgate, Manchester, 3.
Wilson, Geoffrey Bertram; 1951, A.C.A.; 10 Granville Gardens, Didsbury, Manchester, 20.

(2) That eleven associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one associate be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

(4) That one hundred and fifty-three applicants be admitted as associates under clause 5 of the supplemental Charter (bye-law 31) and that one application be deferred.

(5) That three hundred and thirty-eight applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36) and that one application be deferred.

A list of those who complete their fellowship or membership before March 18th will appear in *The Accountant* of March 22nd.

Registration of Articles

The Secretary reported that 142 articles of clerkship were registered during the month of February as compared with 110 in the previous February.

Resignations

The Secretary reported the resignation of:

Mr Richard Duncan Beresford-Jones, M.A., A.C.A., London.
„ Arnold Page Rutherford, A.C.A., Weybridge.
„ John Selwyn Standish, A.C.A., Cape Town.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Malcolm Hamilton Balmforth, F.C.A., London.

Mr Bernard Arthur Bates, M.C., F.C.A., Bradford.
„ John Alexander Campbell, F.C.A., Reigate.
„ Frank William Dennison, F.C.A., London.
„ Claude William Thomas Fairhead, F.C.A., London.
„ John Alfred Hopps, F.C.A., Leicester.
„ Edward Robert Lawrence, A.C.A., Northwood.
Mr Walter Leslie Mantell, A.C.A., London.
„ James William Rouston, A.C.A., Bexhill-on-Sea.
„ Kenneth Basford Shenton, A.C.A., Derby.
„ Arthur Robert Wadham, A.C.A., London.
„ George Richards Webb, A.C.A., London.
„ William Oscar Wood, A.C.A., Rhyl.

DIRECTORS' EMOLUMENTS

Duties of Auditors under the Companies Act, 1948

Recommendation to Members by The Society of Incorporated Accountants and Auditors

Difficulties have arisen in relation to the duties of auditors under Section 198 of the Companies Act, 1948, mainly owing to the variation in the practice adopted by different firms of auditors and to the wide variety of forms submitted by them for signature by directors.

As a result of representations to the Society by the Chartered Institute of Secretaries, a case was submitted to counsel to consider the problem. The joint opinion of Mr Gerald Upjohn, K.C. (now Mr Justice Upjohn), and Mr J. W. Brunyate was as follows:

We are asked to advise on the duty of a director to give information for the purpose of Section 196 of the Companies Act, 1948, the form such information should take, and the rights and duties of auditors in regard thereto.

The duty of a director arises under two heads:

(*a*) By Section 198 of the Act a director is under statutory duty to give notice to the company of such matters relating to himself as may be necessary for the purpose (*inter alia*) of Section 196.

(*b*) By Section 196 (8) it is the duty of the auditor to see that the requirements of Section 196 are complied with in the accounts and, if not complied with, to include a statement in his report. By Section 162 (3) an auditor is entitled to require from the officers of the company such information and explanations as he thinks necessary for the performance of his duties as auditor. A director, as an officer of the company, might therefore be asked for information under this section.

We will consider first the director's duty under the first head, Section 198. Section 198 (2) prescribes special formalities for a notice given under that section for the purpose of Section 195 of the Act: in our opinion it follows by necessary implication that those formalities are not required as regards a notice for the purpose of Section 196. Accordingly our opinion on the points raised in our instructions is as follows:

(*a*) *Form of notice.* – A director cannot be required to give notice in writing. An oral notice complies with the section. Nor can the director be required to give notice in any particular form; provided that he does in fact give the full information necessary, he complies with the section. There is no authority under the section to require that the notice shall be countersigned by the chairman of the company or approved by the board.

(*b*) *To whom the notice may be given.* – The notice is to be given to the company. A written notice addressed to the company or the secretary and left at or posted to the registered office of the company would suffice (Section 437). In case of an oral notice, it must be given to a person authorized to receive it on behalf of the company. In the absence of any resolution of the board of directors the secretary would in our opinion have authority to receive such a notice; and oral notice to the secretary would therefore suffice. It would, however, be possible for the board of directors to resolve that the secretary had no authority to receive such oral notices; and in that event oral notice could, we think, only be properly given by statement at a board meeting. It would not in our opinion be formally correct to address a notice under Section 198, whether written or oral, to the auditors, since it is not their function to receive notices on behalf of the company.

(*c*) *Contents of the notice.* – The notice must state such matters relating to the director concerned 'as may be necessary for the purposes of' Section 196. Where the full information required for Section 196 to be complied with is manifest in the books of the company, a statement by the director that he has received no emoluments which do not so appear would comply with Section 198, for it is not in our opinion 'necessary for the purposes of Section 196' that information clearly appearing in the company's books should be repeated. In other cases, for example when part of the expense allowance is charged to United Kingdom tax or other payment is received from a subsidiary, the notice must give specific information of the payments which do not appear in the company's books.

We now turn to the second head, the right of an auditor to require information from an officer of the company under Section 162 (3) of the Act, and the implied duty of a director, as such officer, to furnish him with the information he requires. The powers given by the Section do in our opinion extend to the matters dealt with in Section 196 of the Act, both under his general duty to audit the accounts and his special obligation under Section 196 (8). The auditor's right under Section 162 (3) is to ask for such information and explanation as he thinks necessary for the performance of his duties. This section does not attach any penalty if the officer fails to give the information

required; the remedy is for the auditor to refuse his certificate. Buckley states of the section: 'The duty imposed by it on auditors is not absolute but depends on the information given and explanations furnished to them so that there is abundant scope for discretion' (twelfth edition, page 360); with that statement we agree. While therefore one cannot lay down any precise rule as to what an auditor should require in a particular case, it will perhaps be helpful if we indicate principles which appear to us reasonable for the auditor to adopt in applying the section:

(*a*) When the directors have not made statements under Section 198, the auditor should require them to be made; he can best do this by asking the board to procure them.

(*b*) When the directors have duly made written statements under Section 198, which in fact contain (with the aid of the company's books) the required information, the auditor is not we think reasonably entitled to require them to be made in a different form or to be certified in some particular way, e.g. by board resolution.

(*c*) The auditor is entitled to check the statements against the company's books and other information which he may have, and if he has reason to doubt their correctness or sufficiency, to require further information and explanation from the director concerned or other officers of the company. When, for example, the remuneration includes benefits in kind, he would be entitled

FORM I

To...Co Ltd.
(Addressed to the registered office)

Pursuant to the provisions of Section 198 (1) of the Companies Act, 1948, I give notice that the emoluments paid to or receivable by me within the meaning of Section 196 of that Act applicable to the company's financial year ended........................., 19........., were as follows:

	From the company	* *From the Company's subsidiaries*	* *From any other person*
(1) REMUNERATION			
(*a*) As director			
(*b*) Otherwise in connexion with the management			
(2) OTHER EMOLUMENTS			
(*a*) Expenses allowances in so far as charged to United Kingdom income-tax			
(*b*) Any contribution under any pension scheme			
(*c*) Estimated money value of any other benefits received otherwise than in cash			
(3) Pensions (other than from a scheme where the contributions thereunder are substantially adequate for the maintenance of the scheme) including any superannuation allowance, superannuation gratuity or similar payment			
(4) Compensation in respect of loss of office, including sums paid as consideration for or in connexion with retirement from office ..			

Director's signature.................................
Date.............................

* These columns to be omitted if not applicable

FORM II (ALTERNATIVE)

To...Co Ltd.
(Addressed to the registered office)

Pursuant to the provisions of Section 198 (1) of the Companies Act, 1948, I give notice that all the emoluments paid to or receivable by me within the meaning of Section 196 of that Act applicable to the company's financial year ended........................., 19......... (*excepting**

....

....),

appear as such in the books of the company.

Director's signature.................................
Date.............................

*Delete if not applicable

Section 196 states: '. . . for the purposes of this section the expression "emoluments" in relation to a director includes fees and percentages, any sums paid by way of expenses allowance in so far as those sums are charged to United Kingdom income-tax, any contribution paid in respect of him under any pension scheme and the estimated money value of any other benefits received by him otherwise than in cash.'

to satisfy himself how the benefits have been valued and whether the value was correct.

(*d*) If the statements made do not contain the information necessary (with the aid of the company's books) for complying with Section 196, the auditor can require that proper and sufficient statements be made.

(*e*) Oral statements, though complying with Section 198, might certainly give the auditor great difficulty, unless they had been promptly and formally recorded. An auditor asked to act on unrecorded oral statements could we think reasonably say that, quite apart from Section 198, he was not in a position to perform his duties without himself making further inquiries in accordance with his powers under Section 162 (3).

So much for the legal position. Although a director cannot be compelled to make his statement under Section 198 in any particular form, it is plainly desirable as a practical matter that the professional bodies concerned should agree upon a standard form which will furnish the requisite information in the simplest manner; and should endeavour to secure its adoption as a matter of company routine. To do so would be in the interests not only of secretaries and auditors but also of directors themselves, for they may be called on to prove at a later date that they did make a statement sufficient for the purpose of Section 198.

Such standard form should clearly be in writing and require the director's signature; it should not require the counter-signature of the chairman or approval of the board; for simplicity, it should allow the director to refer to the company's books in regard to matters which readily appear therein, such as ordinary remuneration and contributions to pension fund. Something on the lines of the draft statement given on page 8 of our instructions would seem satisfactory, but it is for the professional bodies concerned to decide whether that draft does contain all requisite information. In the interests of simplicity, it might well be advantageous to have alternative briefer forms for particular cases, for example a company without subsidiaries or without a pension fund.

RECOMMENDATION

The Council of the Society makes the following recommendation to its members:

Where the notice required to be given by a director to the company under Section 198 of the Companies Act, 1948, relating to emoluments within the meaning of Section 196 is not in writing and signed by the director, then the auditor may consider it necessary under Section 162 (3) of the Act to request that the necessary information be given in writing and signed by the director.

Counsel advises that whilst any particular form of notice could not be enforced, it is plainly desirable as a practical matter that a standard form of notice should be agreed upon in the interests not only of auditors but also of directors. Accordingly an appropriate form of notice is set out overleaf.[1]

January 23rd, 1952.

[1] See page 287.

SOUTH WALES AND MONMOUTHSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

ANNUAL DINNER

The South Wales and Monmouthshire Society of Chartered Accountants held their annual dinner at *The Mackworth Hotel*, Swansea, on Thursday, March 6th, 1952. The President of the Society, Mr Colin Montgomery Williams, F.C.A., was in the chair, and with Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, received the 142 members and guests who attended.

Among the guests were Alderman Dan Jones, D.L., J.P., Mayor of Swansea, Mr H. Llewelyn Williams, Q.C., Stipendiary Magistrate of Swansea, Mr E. Julian Pode, A.C.A., Managing Director, Steel Company of Wales Ltd, Mr A. W. Pile, F.I.C.S., President, Swansea Chamber of Commerce, and

Messrs T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); Bertram Charles, B.A. (*Registrar of County Court, Swansea*); S. W. Cornwell, F.C.A. (*President, Bristol and West of England Society of Chartered Accountants*); I. M. Davies (*President, Local Branch Institute of Bankers*); L. J. Drew, M.A., M.ED. (*Director of Education, Swansea*); Sir Clive Edwards, Bt.

Messrs E. Gavine (*H.M. Principal Inspector of Taxes, Cardiff*); Wilfred B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); H. K. Greaves, F.I.M.T.A., F.S.A.A., F.A.C.C.A. (*Borough Treasurer, Swansea*); D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); T. G. Hews (*Chairman, General Commissioners for Taxation, Swansea*); Trevor L. Hoskins, F.C.I.S. (*Chairman, Swansea Branch, Chartered Institute of Secretaries*); Sir William A. Jenkins, J.P. (*President, Swansea Business Club*).

Messrs Arthur Jolly, J.P., F.C.A. (*President, South Eastern Society of Chartered Accountants*); C. E. Jones, A.C.I.S., A.A.C.C.A. (*President, Swansea Branch, Association of Certified and Corporate Accountants*); Sir Lewis Jones, J.P. (*Secretary, South Wales Siemens Steel Association*); Messrs W. Gerwyn Jones, F.C.A. (*Vice-President, South Wales and Monmouthshire Society of Chartered Accountants*); J. Llewelyn Lewis (*President, Swansea Rotary Club*); Alan S. MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants in England and Wales*); E. E. Porter, A.S.A.A. (*President, Swansea and South West Wales District Society of Incorporated Accountants and Auditors*).

Messrs D. H. I. Powell (*Editor, 'Evening Post'*); Gilbert D. Shepherd, M.B.E., F.C.A.; Geo. A. Thomas (*President, Swansea and District Law Society*); Rev. Canon J. J. A. Thomas (*Vicar of Swansea*); Mr R. W. Thomas (*President, Swansea Chamber of Trade*); Dr Ben Thomas (*President, Swansea Medical Society*); Mr D. V. Turner, M.B.E. (*Chief Constable, Swansea*).

Mr Llewelyn Williams, Q.C., proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said that he had a great admiration for gentlemen of the profession who were capable of recovering hard-earned money which has been ex-

tracted from the poor unfortunate taxpayer by ruthless Tax Inspectors. (*Laughter.*)

Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, responding to the toast, briefly surveyed the economic condition of the country and outlined the parts that could be played by accountants.

The Royal Commission

He continued:

'At a special meeting of the Council on February 27th, the final touches were put on the Council's submissions to the Royal Commission on the Taxation of Profits and Income. . . . Part A of the Council's memorandum has been in the hands of the Royal Commission since June 1951 but it was Part B which has taken so much time in research and drafting. . . .

'When I tell you that Part B comprises an introduction and memoranda under twenty separate heads and that, when printed, the Part B memorandum covers ninety-five foolscap sheets, you will have some idea of the magnitude of the task. The draft heads making up Part B have all been prepared by a drafting sub-committee of the Taxation Sub-Committee of the Taxation and Research Committee and were then approved provisionally by joint representatives of the Parliamentary and Law and Taxation and Research Committees before being submitted for approval by the Parliamentary and Law Committee and thereafter by the Council'.

The toast of 'The Trade and Industry of South Wales and Monmouthshire' was proposed by the Mayor of Swansea, Alderman Dan Jones, D.L., J.P., and acknowledged by Mr E. Julian Pode, A.C.A., Managing Director, Steel Company of Wales Ltd.

The President of the Society, Mr Colin Montgomery Williams, F.C.A., proposed the toast of 'The Guests' and paid a high tribute to the Hon. Secretary, Mr H. W. Vaughan, F.C.A., for arranging so enjoyable a dinner.

Mr A. W. Pile, F.I.C.S., President, Swansea Chamber of Commerce, replied.

The evening concluded with a vote of thanks to the Chairman proposed by the Vice-President, Mr W. Gerwyn Jones, F.C.A.

THE MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY

ANNUAL DINNER

The annual dinner of the Manchester Chartered Accountants Students' Society was held at the Reform Club, Manchester, on Friday, March 7th, 1952. The President of the Society, Mr H. Sutherst, F.C.A., was in the chair, and with Mr Garton Ash, O.B.E., M.C., F.C.A., Immediate Past-President of The Institute of Chartered Accountants in England and Wales, received the 141 members and guests who attended.

Among those present were Sir Charles Renold, J.P., Director, The Renold & Coventry Chain Co Ltd, Professor B. A. Wortley, O.B.E., LL.D., Professor of International Law, Manchester University; Mr A. H. Potter, Senior Inspector of Taxes; Mr D. A. Lewis, LL.B., B.A.(COM.), F.I.B., Midland Bank Executor & Trustee Co Ltd; and

Messrs S. G. Barker (*Chairman, Council of the Manchester and District Bankers' Institute*); A. T. Eaves, M.M., F.C.A., F.S.A.A. (*President, Incorporated Accountants' Society of Manchester and District*); J. A. Edwards (*Joint Hon. Secretary, Bradford and District Chartered Accountant Students' Society*); E. J. M. Harris (*President, Manchester Chamber of Commerce*); R. Hodgson (*Hon. Secretary, Students' Section of Certified and Corporate Accountants, Manchester and District Association*); M. Wheatley Jones, B.COM., F.C.A. (*President, Manchester Society of Chartered Accountants*).

Messrs P. L. Kemp (*Hon. Secretary, Students' Section of Institute of Cost and Works Accountants, Manchester and District Branch*); L. Leake, A.C.A. (*Hon. Secretary, Leicester and Northampton Chartered Accountant Students' Society*); G. Maeer (*Hon. Treasurer, Sheffield and District Chartered Accountant Students' Society*); M. S. Moon (*Committee Member, Liverpool Chartered Accountant Students' Society*); J. R. Phillips (*Hon. Secretary, South Wales and Monmouthshire Chartered Accountant Students' Society*); J. M. Rae (*Hon. Secretary, Birmingham Chartered Accountant Students' Society*).

Messrs H. Richmond, F.C.I.S. (*Secretary, Manchester Stock Exchange*); J. Topper (*Hon. Secretary, Manchester University Accountancy Society*); R. M. Strachan (*Committee Member, Kingston-upon-Hull Chartered Accountant Students' Society*); B. W. Sutherland, A.C.A. (*Hon. Secretary, Nottingham Chartered Accountant Students' Society*); A. Wilson (*Hon. Secretary, Leeds and District Chartered Accountant Students' Society*); C. Cecil Wright, F.C.I.S. (*President, Manchester and District Chartered Secretaries' Students' Society*).

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Professor B. A. Wortley, O.B.E., LL.D., Professor of International Law, Manchester University.

Replying to the toast, Mr H. Garton Ash, O.B.E., M.C., F.C.A., Immediate Past-President of The Institute of Chartered Accountants in England and Wales, spoke of the high place in the affairs of the country occupied by the Institute. He continued:

'The supplemental Charter, granted in December 1948, recognized the extent to which, since the granting of the original charter in 1880, members of the Institute have taken up whole-time appointments in industry and commerce, and have not confined themselves to setting up in practice.

'The whole circumstances of our training helps in this, for it is one in which there exists ample opportunities to develop a sense of responsibility, to acquire an understanding of one's fellow men and a breadth of knowledge which few professions can offer. . . . The qualities required of a chartered accountant are somewhat exacting.'

The toast of 'The Manchester Chartered Accountants Students' Society' was proposed by Sir Charles Renold, J.P., Director, The Renold & Coventry Chain Co Ltd, and Mr H. Sutherst, F.C.A., President of the Society, replied.

The toast of 'The Guests' was proposed by Mr D. Moody, a student member of the committee of the Society; Mr A. H. Potter, Senior Inspector of Taxes, and Mr D. A. Lewis, LL.B., B.A.(COM.), F.I.B., responded.

Mr Harold Walton, A.C.A., proposed a most hearty vote of thanks to the Chairman, and Mr Sutherst in his reply expressed his appreciation of the excellent work done by Miss Isabel Ritchie, LL.B., the Assistant Secretary.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on February 6th, 1952.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Edwin Robert Hayes Scott, A.C.A., had been guilty of acts discreditable to a member of the Institute within the meaning of Section 21, subsection (3) of the Royal Charter, in that (*a*) during the period between March 1950 and October 1951, he misappropriated the sum of approximately £2,500, being part of the funds of the firm of which he was at the time a partner; and (*b*) during the same period he made false entries in the books of the firm with a view to defrauding and/or deceiving his partners, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Edwin Robert Hayes Scott, A.C.A., had been proved both under headings (*a*) and (*b*), and the Committee ordered that Edwin Robert Hayes Scott, A.C.A., of 98 Chiltern Drive, Surbiton, Surrey, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Sydney Babbs, A.C.A., had been guilty of an act or default discreditable to a member of the Institute within the meaning of Section 21, subsection (3) of the Royal Charter in that (*a*) despite repeated requests from the executors of a deceased person he failed to complete and send to the said executors within a reasonable time, or at all, the accounts to the date of the death of the said person; (*b*) despite repeated requests from his clients, the executors of the deceased person, and from the accountants to whom the said executors entrusted the preparation of accounts relating to the estate of the deceased, he failed to hand over to the accountants the books of account relating to the estate; (*c*) he failed to reply to three letters from the Secretary of the Institute dated respectively October 10th, 1951, October 25th, 1951, and November 9th, 1951, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Sydney Babbs, A.C.A., had been proved under headings (*a*), (*b*) and (*c*), and the Committee ordered that Sydney Babbs, A.C.A., of 28 Grove Lane, Kingston upon Thames, be excluded from membership of the Institute.

The Chartered Accountants' Benevolent Association

The annual meeting of the board of governors of The Chartered Accountants' Benevolent Association will be held at The Institute of Chartered Accountants in England and Wales, Moorgate Place, London, EC2, at 3.15 p.m. on Thursday, March 27th.

The Institute of Chartered Accountants in Ireland

QUARTERLY AND SPECIAL MEETINGS OF THE COUNCIL, MAY 1952

At the quarterly and special meetings of the Council of The Institute of Chartered Accountants in Ireland on February 25th and 26th the following were present:

Mr H. E. A. Addy (*President*), Mr P. Butler (*Vice-President*), Messrs F. Cleland, W. H. Fitzsimons, G. F. Klingner, E. T. McCarron, H. Trevor Montgomery, E. P. O'Carroll, P. J. Purtill, W. L. H. Rodden and G. Hill Tulloch.

An apology for absence was received from Mr John Bailey.

The following successful candidates at the Final examination in November 1951 applied for and were admitted to membership as Associates not in Practice:

Norman Alexander Agnew (Ballyclare, Co. Antrim), William Anthony Alexander (Dublin), Donald Gerard Michael Beddy (Glenageary, Co. Dublin), Desmond Geddes Bendle (London), David Alan Bowles (Dublin), Daniel Francis Bradley (Dublin), John Purvis Heys Bruce (Belfast), Patrick Joseph Anthony Byrne (Dublin), William Laurence Cassidy (Dublin), Joseph Richard Connell (Dublin), Maurice Pius Corrigan (Dublin), Vincent Conor Joseph Crowley (Dublin), Edward Frederick Fitzsimons (Dublin), Philip Noel Flaherty (Castledermot, Co. Kildare), John Healy (Dublin), Ronald Weir Jess (Lisburn, Co. Antrim), Matthew Cyril Keane (Booterstown, Co. Dublin), Patrick Joseph Kearns (Elphin, Co. Roscommon), Martin Joseph Kelly (Longford), George Maxwell Larmour (Bangor, Co. Down), Edward Johnston Leathem (Belfast), Robert Beattie Logan (Belfast), John Francis McDermott (Dublin), Desmond Michael McDunphy (Dublin), John Gerard McMahon (Dublin), Richard George Mallet (Dun Laoghaire), Cormac James O'Rourke (Dublin), Thomas Ryan (Doon, Co. Limerick), Desmond F. Wallis (Bristol), Brian Patrick Whitty (Dublin), Franz Carl Walter Winkelmann (Dublin).

Applications by the following members for admission to Associateship in Practice were acceded to:

Mr Victor John Campbell Blakely (Bangor, Co. Down), Mr Percy Reginald Collins (Coleraine, Co. Derry), Mr Eric Wallace McDowell (Belfast), and Mr Derek Pearson (Dublin).

The following members applied for and were admitted to Fellowship:

Mr Arthur Nicholson Lovesy (Belfast), Mr John McCann (Belfast), Mr Miceal Willis Murphy (Dublin), and Mr William Patrick Rhatigan (Dublin).

One member was excluded from membership under bye-law 107 for non-payment of his annual subscription for the year 1951.

It was agreed that a former member, previously excluded from membership for non-payment of his annual certificate fee, should be readmitted to membership, as an Associate not in Practice, on payment of the current year's annual subscription.

The application of a former member who resigned in 1948 for readmission to membership was deferred.

The deaths of Mr Samuel Smyth, F.C.A., Belfast (a former President), on December 29th, 1951, and of Mr A. H. Whiteside, F.C.A., Dublin, were reported and noted with much regret.

Mr Alexander Hugh Courtney Greer, a member of The Institute of Chartered Accountants in England and Wales, applied for and was granted exemption from the examinations of the Institute and was admitted to membership as an Associate not in Practice, under bye-law 82, having taken up residence permanently in Ireland (Belfast).

It was decided that the next examinations (Intermediate and Final) should be held on May 6th to 9th, 1952, in Belfast and Dublin.

The proceedings at the last meetings of the Council and Committees organizing the Sixth International Congress on Accounting to be held in London on June 16th to 20th, were reported and noted; and the provisional arrangements for the entertainment of overseas delegates and visitors who may visit Ireland after the Congress were approved.

Personal

MESSRS SINCLAIR, FURMAN & CO, Chartered Accountants, of Ibex House, Minories, London, EC3, announce that Mr A. S. SOKEL, A.C.A., has been admitted a partner as from March 1st, 1952. The practice will be carried on from the same address and the style of the firm remains unchanged.

MESSRS SILVER, ALTMAN & CO, Chartered Accountants, of Napier House, 24-27 High Holborn, London, WC1, announce that as from February 18th, 1952, they have admitted into partnership Mr SIDNEY MORRIS, A.C.A., who has been associated with the firm for a number of years. The firm's name will remain unchanged.

MESSRS CARTER, GREIG & COY, Chartered Accountants, of 5 St Andrew Square, Edinburgh 2, and 44 Chandos Place, London, WC2, announce that Mr J. R. T. WALDRON, A.C.A., A.C.C.S., has been admitted into partnership as from March 1st, 1952. The name of the firm remains unchanged.

CORRIGENDUM

A notice of dissolution of partnership in the 'Personal' column of our March 1st issue, referred incorrectly to Mr Austen G. Wallis, F.C.A. The name should have read Mr Austen B. Wallis, F.C.A.; the notice in its entirety, is as follows:

MR AUSTEN B. WALLIS, F.C.A., and Mr JOHN FORSYTH, F.C.A., announce that their partnership carried on under the name of FRENCH, WALLIS & FORSYTH, at Newcastle-on-Tyne, Sunderland and North Shields, has been dissolved by mutual agreement. Mr WALLIS is continuing to practise at Newcastle and North Shields under the name of FRENCH, WALLIS & CO, Chartered Accountants, and has taken into partnership Mr ERIC W. SPRUCE, A.C.A., who served his articles with Mr WALLIS and has been associated with the firm for several years. Mr FORSYTH is continuing to practise at Sunderland under the name of JOHN FORSYTH & CO, Chartered Accountants.

Professional Note

Mr Alec H. Barber, A.S.A.A., has been appointed Secretary of Ever-Ready Razor Products Ltd.

In Parliament

POST-WAR CREDITS

Mr COLEGATE asked the Chancellor of the Exchequer what is the practice of his department in the event of the death of a person entitled, by reason of age, to immediate payment of a post-war credit in regard to the payment of the amount to which he was entitled to his estate.

Mr R. A. BUTLER: If a post-war credit holder, having reached the qualifying age, makes an application for payment but dies before it is received, it is made to his estate. If no application was made, the legal personal representatives may have the post-war credits transferred to themselves or to any other person, but payment of the credit can be made only if the transfer is to a beneficiary of the estate, and then not until the beneficiary has reached the qualifying age.

Hansard, March 4th, 1952. Written Answers, Col. 28.

Chesterfield Bankruptcy District Transfer

The Board of Trade announce that from March 1st, 1952, the responsibility for the Bankruptcy District of the County Court of Chesterfield will be transferred from the Official Receiver at Nottingham (Mr E. C. Stimpson) to the Official Receiver at Sheffield (Mr C. A. Taylor). This change has been made to facilitate business in view of the proximity of the Chesterfield district to Sheffield.

The Institute of Chartered Accountants of Scotland

RESULTS OF DECEMBER 1951 EXAMINATIONS

We have been advised of the following additional name for inclusion in the list of successful candidates[1] at the December 1951 Final examination of The Institute of Chartered Accountants of Scotland:

Forsyth, G. F. (Aitken & Ramsay), Glasgow,

London and District Society of Chartered Accountants

LUNCHEON MEETING: REVISED DATE

It has been necessary to postpone the luncheon meeting arranged for March 26th, 1952, at the Connaught Rooms, until Monday, April 21st, as the guest speaker, Sir John H. E. Woods, G.C.B., M.V.O., has had to go to New Zealand on urgent business.

Details of the meeting appeared on page 235 of our issue of March 1st; applications for tickets already received will be treated as for the revised date unless the members concerned notify the Deputy Hon. Secretary at Leith House, 47 Gresham Street, EC2, to the contrary. The final date for further applications is now April 7th.

The Chartered Accountant Students' Society of London

A meeting of the Society is to be held in the Oak Hall of the Institute on Wednesday, March 19th at 5.30 p.m., when the motion 'That an accountancy school should be set up for articled clerks' will be debated.

It is hoped that many members will come to the meeting and give their views, either by speaking or by voting on the motion. Tea will be available at 5 p.m.

The Special Commissioners of Income Tax

The Lords Commissioners of H.M. Treasury have appointed Mr Hugh Gordon Watson to be a Special Commissioner of Income Tax.

Hockey

CHARTERED ACCOUNTANTS (3) *v.* STOCK EXCHANGE (1)

The annual match between the Chartered Accountants and the Stock Exchange was played on Wednesday, March 5th, at the Old Deer Park, Richmond, and ended in a 3–1 victory for the Accountants.

The Stock Exchange took the offensive at the start and looked dangerous, but the attack was broken up by D. A. Tripp and E. G. Moore. The Accountants' forward line then knit together and D. G. B. Knight broke through to score before half-time.

On the change-over, the Chartered Accountants drove the ball into the penalty circle and during a mêlée in the goal-mouth, C. O. Merriman scored for the Accountants. The Stock Exchange then took charge of the game and J. D. Liggatt, the Accountants' captain in the unusual position of goal-keeper, had to come out time and again to meet the Stock Exchange forwards. During one of these sorties, D. A. Halahan, the Stock Exchange inside-left, sent a hard cross-shot into the goal. The Accountants rallied and C. P. Mahne on the right wing, finally scored from a rebound off the Stock Exchange goal-keeper's pads.

The Chartered Accountants' side was as follows:

J. D. Liggatt (Captain) (*Broxbourne*), E. G. Moore (*Hendon*), D. A. Tripp (*Surbiton*), B. G. Purnell (*Blackheath*), C. F. Dashwood (*Richmond*), R. de C. du Mee (*Broxbourne*), B. G. Henderson (*Burgess Hill*), C. P. Mahne (*Mid-Surrey*), C. O. Merriman (*Reigate*), J. M. Mann (*Hawks*), D. G. B. Knight (*Mid-Surrey*).

[1] *The Accountant*, February 9th, 1952, at page 152.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF MARCH 17TH, 1877

From 'Notes in Passing'

Bankruptcy Bill, 1877

Before this is in type most of our readers will have been able to peruse the new Bankruptcy Bill which the Lord Chancellor has introduced into the House of Lords. At the earliest opportunity that presents itself we shall offer some comment on its provisions. In the meantime, we may say that although the new Bill is in many points superior to its predecessor of 1876, it is yet capable of manifold improvement. The same unjust animus against accountants and others acting as professional trustees pervades it; and we regret to observe that there is still a considerable leaning towards officialism, as in the previous measure. Before the present Bill is finally disposed of in both Houses of Parliament, it will probably undergo many modifications; and we suggest to our readers that they may now be of considerable assistance in this direction. All will have perused with interest the admirable series of letters on the Bankruptcy Bill of 1876 recently contributed to this journal by 'Investigator'. We invite the profession to follow the good example thus set them. Every accountant can add some element of experience or insight to the discussion; and the gravity of the situation demands that personal convenience or inclination should, to a certain extent, be subordinated to the welfare of the profession.

The Accountant

ESTABLISHED 1874

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CONTENTS

THE LEVY

NOBODY wanted it, least of all those who are numbered among the Government's strongest supporters. Yet here it is again – excess profits tax with all its anomalies, complexities and frustrations. Future historians of the country's taxes will have some difficulty in discovering how this particular one ever came about. They will certainly find little help in *Hansard*, for neither the Government speakers nor the Opposition showed any enthusiasm for it. In three whole days of debate the most that could be said for it was:

> 'In my opinion it is bound to be economically harmful although it may be politically necessary.'[1]

Of course the CHANCELLOR OF THE EXCHEQUER had to say something in its favour, but even he said so little that he could hardly have said less.

> 'At a time like this sacrifices should be equally borne. We are not prepared to see excessive profits being made as a result of the injection of rearmament into the economy.'

After this preliminary fanfare one might have been prepared for anything ranging from total confiscation to the death penalty. What in fact came was a 30 per cent tax. To increase the anti-climax the CHANCELLOR added in effect that this rate of 30 per cent would apply only where the total profits were not more than two and a half times the standard. Beyond that the rate falls progressively to 18 per cent, presumably on the ground that it is less wicked to make five or ten times the standard profit than to make only two and a half times or less. Indeed, MR BUTLER will go down in history as the first Chancellor to introduce profit taxation at a rate which varied inversely with the profit. This innovation is to 'meet cases of hardship' – a hardship which many of us would be only too happy to suffer.

It is only artificial persons, such as companies, which are to be penalized for the wickedness of commercial success. Individuals and partnerships are to be exempt on the ground that they pay sur-tax, although this tax is a progressive, not a recessive tax, and is payable whether the profits have gone up or down in relation to the standard period.

What constitutes 'excess' profit must always be a matter of opinion which in turn is usually based on convention. Most people are better off, in terms of money income, than they were a few years ago; some as the result of hard work, some by intelligent foresight, some because of a revised assessment of their worth to the community, some by sheer good luck, and everybody because money buys less than it did before. Profit earning companies in every one of the above categories are to be singled out for special taxation treatment. A Procrustean bed is to be prepared for each

[1] Official Report, Vol. 497, Col. 1419.

of them, based on its average profit in 1947, 1948 and 1949, and 30 per cent of the excess is to be lopped off.

There are other taxes on profits and we have not yet reached the stage where the Government expressly takes more than 100 per cent of the actual profit, however much that may in fact be the practical result of the vagaries of the law governing the computation of profit for tax purposes. Consequently this 30 per cent lopping is to be accompanied by a drastic reduction in the rates of profits tax, so drastic in fact that most companies which do not improve on their standard profits by more than 20 per cent will in fact pay less, and not more, tax. This puts a premium on stagnation, and penalizes the enterprising, though not to the extent of 30 per cent. The real increase in the percentage borne by taxation to total profit cannot reach as much as half of that figure, even in the most extreme case. However, the CHANCELLOR said:

> 'I think the Committee will agree that we are thus taking away any excess profits made.'

An aim of all post-war Chancellors has been to encourage the ploughing back of profits in order to build up our productive capacity and at the same time prevent inflation. The value of this function, provided it is not overdone, is almost universally admitted. In substance the encouragement has consisted in a tax penalty on distributions of profit, a penalty which in the last year has been considerable. Under the law hitherto in force, directors of companies knew that for every £100 they distributed, the company would in general be mulcted of £40, which £40 in turn would be deducted from a subsequent income-tax assessment as far as this was large enough, so that the net penalty was 21 per cent of the distribution. Under the new proposals the rates of profits tax are to be 2½ per cent on undistributed profit and 17½ per cent on distributed profit, in each case net. In other words, the penalty for distributing profit is to be reduced from 21 per cent plus, to a maximum of 15 per cent. 'Thus', says MR BUTLER, 'we ensure that companies will adopt a very cautious policy in dividends.'

One change which will be generally welcomed is the increase in the maximum remuneration allowable for working directors of director-controlled companies, especially where there are three or more directors. Even now the figures are not excessively generous.

The net result of this swing and roundabout (especially roundabout) policy is expected to be no more than £1 million additional tax for 1952–53, despite the fact that the new legislation is to be retrospective to the beginning of the calendar year. To quote MR BUTLER himself:

> 'So this is another example of that wonderful system of transfer from one pocket to another, very often in the same pair of trousers, which is a feature of our national economy.'[1]

This, however, was said about someone else's Budget. It is true that the changes are estimated to bring about £100 million in a full year, that is in 1953-54, but what profits will in fact be then is perhaps anybody's guess, apart from the possible changes in next year's Budget.

Thus, to bring in £1 million of a total estimated tax revenue of some £4,498 million there is to be imposed an entirely new tax, the complicated nature of which is hardly suspected except perhaps by the unfortunate officials and accountants who will have to compute it. In addition to the separate computations for income-tax and profits tax, there will be at least four computations to arrive at the excess profits levy, that is, the year of charge and the three years making up the standard period. If the accounting period of a company does not coincide with the calendar year, the computation will be even more complicated. Although the whole basis of the tax is purely arbitrary, a semblance of equity is to be brought in by certain as yet unspecified adjustments to ensure a fair comparison and to allow for some return on profits ploughed back. Never can so much work have been devised to bring in so little – an odd way to reduce our 'swollen bureaucracy'.

Presumably the chosen instrument for the exaction of the levy is the income-tax inspectorate, a body so notoriously understaffed that it is officially admitted to be inadequate even to bring in the taxes already in force. It seems that tax evaders are to be given a new lease of life while inspectors sit laboriously ticking through special notional schedules of capital allowances for excess profits levy purposes, equally laboriously prepared by accountants who could have been doing something far more useful.

[1] Official Report, Vol. 474, Col. 155.

THE SCOTTISH INSTITUTE'S YEAR

THE report of the Council of The Institute of Chartered Accountants of Scotland to be presented to the first annual general meeting of the members next Wednesday was issued last week. As the Institute in its new form has been in existence only for a matter of months this initial chronicle explains in some detail the administrative arrangements which have been made. The first elected Council falls to be chosen at the forthcoming annual general meeting and will consist of, in addition to the President and Vice-President, seventeen members practising in Scotland, two members practising in the United Kingdom outside Scotland, and two members not in practice. The rules provide that at subsequent elections this ratio of representation may be varied. The Council will be assisted by five local committees – in Edinburgh, Glasgow, Aberdeen, Dundee and London – with functions akin to those of the district societies of other accounting bodies. Committees have also been formed to deal with finance, rules and bye-laws, examinations, taxation and disciplinary matters.

One of the Council's first tasks is to finalize the Institute's rules and bye-laws, a draft of which was circulated to members of the Edinburgh, Glasgow and Aberdeen societies in October 1950. The Rules and Bye-laws Committee is at present considering this draft and points on it raised by members, and will in due course report back to the Council with recommendations on any amendments considered desirable. It is hoped that the handbook of general information about the Institute for the use of members, shortly to be produced, will contain a copy of the definitive constitution.

On general matters concerning the profession, the Council, despite its preoccupation with setting its house in order, has been most active, both on its own initiative and in association with other accounting bodies. In July 1951, the Council approved a first memorandum of evidence which had been prepared by the Taxation Committee for submission to the Royal Commission on Taxation and, since December 31st, 1951, a second memorandum of evidence has been approved and submitted.

As the oldest accounting body in this country, the Institute heads the list of sponsors of the Sixth International Congress on Accounting to be held in London in June. As well as having representatives on the Council and committees, two of its members – MR HAROLD G. JUDD, C.B.E., C.A., and MR J. C. BURLEIGH, C.A. – have been appointed honorary auditors to the Congress, and two other members – MR IAN W. MACDONALD, M.A., C.A., and MR W. S. RISK, B.COM., C.A., F.C.W.A. – are to present papers at the business sessions.

During the year, 283 indentures were registered as against 359 during 1950. The total number of candidates for the May and December diets of examination was 2,249, and the percentages of passes for the first and second divisions of the Intermediate and Final examinations respectively were 56, 51, 49 and 40. The number of candidates for the second division of the Final examination (698) included all national service candidates whether they sat the whole or only a part of the examination. The number of failures (416) included those who passed in some papers but not the whole examination.

The total membership of the Institute on December 31st, 1951, was 5,181 compared with the total strength of the three former societies on December 31st, 1950, of 5,071. Almost exactly one-half of the members practise or are employed outside Scotland, a fact which would seem to indicate that these 'exiles' should be more strongly represented numerically on future Councils than they are at present.

The retiring President, MR R. G. SIMPSON, M.C., C.A., expressing his hopes for the success of the Institute in his valedictory address, emphasizes that:

> 'That success must, however, depend upon the quality of the members, their loyalty to their profession and the professional body to which they belong, and the extent to which they are prepared to devote time and interest to its affairs.'

This is sound advice for any professional body anxious to maintain its high standards and traditions. For the Scottish Institute, emerging from a transitional period and with a widely scattered membership, it has a special timely significance.

AUSTRALASIAN COMMENTARY—VI

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Corporation Analysis

IN the seventh Commonwealth Institute of Accountants' research lecture in the University of Western Australia, Mr K. C. Keown, A.C.A.(AUST.) analysed the sources and employment of the capital of 268 companies registered on the Stock Exchange of Melbourne. The investigation, the results of which are set out in fourteen tables, was conducted with the object of ascertaining from what sources Australian companies obtain necessary capital, how this capital is employed, whether there appeared to be a standard working capital ratio, and how 1950 analyses compared with those of 1925–26.

This survey has produced information of real benefit to accountants in their continual striving for a better understanding of the financial structure of corporations.

Over the whole range of the sample taken, 61 per cent of the funds used by companies are obtained from shareholders. This 61 per cent is represented by 38 per cent from contributed capital and 23 per cent from retained profits. As to utilization of funds, Mr Keown found that 36 per cent were invested in property and plant, 27 per cent in inventories, and 15 per cent in debtors.

Working Capital

Adverting to the view of Mr Roy A. Foulke (New York) that the desirable working capital ratio is two to one, Mr Keown found that most Australian companies in 1950 had a ratio considerably less than this supposedly desirable figure. Here are the class averages he found:

Manufacturing	1·41
Trade and Commerce	1·31
Miscellaneous	0·96

Investments, whatever their degree of liquidity, were excluded from the computation of working capital.

Inflation in New Zealand

Professor W. Rosenberg, M.COM., of Canterbury University College, thinks that the tendency towards continuous inflation in New Zealand seems very strong at the present time. There will be a tendency for money in circulation to increase and for export incomes to express themselves in increased domestic demand with resulting rising prices. These will follow by virtue of improving terms of trade and a growing export surplus. Many factors have contributed to New Zealand's growing economy but the most marked is the increase in population. For the year 1948 New Zealand showed the highest net reproduction rate of all countries enumerated in the United Nations' statistical year book. The greater population has meant greater investment activity. Professor Rosenberg ends with the following significant observation:

> 'No doubt there are plenty of reasons for grumbles, but as long as Britain is prepared to take all we can produce, as long as she is paying us fair prices for our goods and as long as our internal economy is steadily expanding the signs are set for fair sailing'. (*The Secretary in Australia and New Zealand*, January 1952.)

Economic Survey

Speaking of the New Zealand economy, the editorial of the November issue of *The Accountants' Journal* points out that there is now available a 71-page booklet called *The New Zealand Economy 1939 to 1951*. This contains a survey prepared by Treasury officers covering population, employment, production and consumption, external trade, prices, incomes and inflation.

Decimal Currency

Mr S. G. Savage, of New Zealand, suggests that to overcome the difficulties associated with a change to a decimal currency, such change could be placed on an optional basis. Two new coins could be added to the present range, viz. one having the value of 1/100th part of £1 (five to a shilling), the other having a value of 1/200th part of £1, and these would be called the sterling cent and half-cent. Shillings issued subsequently could be marked 'five sterling cents', and so on. Prices would be quoted in cents and half-cents and pennies would fall into disuse. What would probably happen, however, is that the half-cent

would be called a penny. (*The Accountants' Journal*, New Zealand, October.)

Have We a Profession?

One of the most discussed problems in post-war years is the question whether accountancy is a profession. Addressing a body of accountants recently, Professor G. L. Wood, of Melbourne University, said that to most oversea leaders a profession is an intellectual and technical occupation that requires training, at least to the level of a first degree in a university, but not necessarily in a university. A professional, he said, is engaged in an intense community service under rules laid down for the minimum requirements of practice under an ethical code. He then described the Australian scene as he saw it –

> 'Senior practitioners must ask themselves whether institutes of accountancy offer candidates training for qualification which measures up to those criteria of a profession. . . . No real profession can grow or develop without reaching out to new fields; to higher levels of knowledge and social usefulness, of specialization, of prediction and of that kind of detective service we call research. Generally speaking, our universities and institutes of accountancy are still at a preparatory stage for these higher research levels. . . .' (*The Australian Accountant*, January 1952.)

The position is not quite the same in New Zealand. There, a close association exists between the University of New Zealand and the New Zealand Society of Accountants. The former now accepts (under certain conditions) six of the latter's eight professional subjects as credits towards the Bachelor of Commerce degree. There is not the same multiplicity of institutes and differing standards in New Zealand as in Australia, and the profession there is well on the way to being geared for research and attention to the matters to which Professor Wood refers.

WEEKLY NOTES

The Budget Debate

The debate which follows the Budget Speech each year is a political occasion. The Government and the Opposition vie with each other to show, the one how much has been preserved in the pockets of the public, the other how much has been taken out of them. This year the familiar pattern has been followed.

The Opposition has made the most it could out of the fact that the small income earner loses on the subsidy cuts without gaining anything from income-tax relief since he pays no income-tax. Criticism about the increase in Bank Rate has been particularly prejudiced and ill-informed. There has not been any real critical effort directed at checking the Chancellor's expectation that the £400 million of goods which are to be syphoned off the home market for export and defence can really be replaced by higher production, a cut in Government outlay, and reduced industrial investment. Yet this is the critical issue from the point of view of public policy rather than the nice calculation of how much less or more the voter is going to have in his pocket at the end of each week as the result of marginal money adjustments to his purchasing power.

From the accountancy point of view the great unknown at the moment is the exact wording of the clauses of the Finance Bill. Until these are known much of the work of assessing the implications of the Budget in so far as they affect company and investment accounting must remain of an approximate nature. The accountant, like the economist, must await to some extent the receipt of further information before he can offer a complete diagnosis of the effects of the Budget.

Replying to the debate, the Chancellor of the Exchequer had behind him two fortifying facts with which to meet his critics. The first of these was that the £ has undoubtedly improved in market value abroad since the Budget. The other was that a public opinion poll has shown that the Budget is on the whole popular, or at least not unpopular.

The F.B.I. and the Budget

A statement on the Budget was issued by the Federation of British Industries last Monday, following a meeting of its Grand Council. As might be expected, the proposed excess profits levy meets with criticism. The Federation regrets that the taxation of industry should be increased rather than lessened when there is already grave anxiety about the maintenance of industrial capital after the existing exactions of taxation. It considers that the slight relief in profits tax does not adequately meet the representations of industry upon the necessity for setting aside sufficient finance to meet the capital expenditure which has now to be postponed. The new levy, in the Federation's opinion, reintroduces a form of taxation which experience has shown to be destructive of enterprises and inequitable in its incidence. It will penalize the efforts, since the standard period, to increase exports and will tax as profit those surpluses which represent no more than a fall in the value of money and are unaccompanied by any increase in physical assets. In general, the Federation approves of the Budget, however.

Postponement of Rating Revaluation

In a written parliamentary reply dated March 12th, 1952, Mr Macmillan, the Minister of Housing and

Local Government, said that it had become clear that the revaluation of property could not be completed by April 1953. The Government had considered whether the revaluation could be carried out in two stages (that is, taking business property first) but had decided it was better to bring in the revaluation of all properties simultaneously, even at the cost of some delay. New legislation would therefore be introduced giving power to postpone the date for the coming into force of revised valuations. The Government hoped to finish, at the latest, by April 1956. This will be just twenty years after the last Schedule A revaluation came into force.

Revenue Departments' Estimates

The estimates for the Revenue Departments (Customs and Excise, Inland Revenue and Post Office) for the year 1952–53 were published last Monday.[1] The Inland Revenue is expected to cost nearly £32 million, as against nearly £29 million last year. The increase is almost entirely represented by increases in the salaries bill, particularly in the Valuation Office, where, although the full-time staff is to be reduced from 7,906 to 6,645 in England and Wales, the total amount to be paid to panels of valuers for revaluation of specific properties is estimated to increase from £500,000 to £1½ million. In the office of the Chief Inspector of Taxes, which deals with income-tax and profits tax, and also presumably with the new excess profits levy, there is provision for only 30,925 officers in 1952–53, as against 31,200 in 1951–52, but there is also provision for the payment of £167,310 in respect of a net addition of about 400 posts by March 31st, 1953. This very modest rise augurs somewhat ill for the progress of the anti-evasion campaign, to say nothing of the enormous burden which the new excess profits levy will impose. Of course there is already a precedent, in the excess profits tax, for the addition of a complicated new tax to the burdens of the Inland Revenue without any corresponding increase in staff. There is a rather ominous estimate for losses by fraud, default and accident, and compensation, of £26,000 as against only £6,000 in the previous year. The estimate for the Customs and Excise at £11 million is £1 million up on last year, while for the Post Office the estimate is nearly £214 million, an increase of nearly £16 million.

Intestates' Estates Bill

The text was published this week of a private members' Bill to amend the law relating to the devolution of a person's estate on his death intestate. The Bill follows the recommendations made by the Committee on the Law of Intestate Succession, whose report was published in July 1951.[2] It is proposed that the surviving spouse's statutory legacy should be increased from £1,000 to £5,000 where there are children or remoter issue, and to £20,000 where the marriage is childless. In addition, the surviving spouse would receive, if there were children, a life interest in half the remaining estate, as before. In the case of a childless marriage the surviving spouse would receive at least half of the estate absolutely. If the intestate left no issue, parent or brother or sister or nephew of the whole blood, the surviving spouse would take the whole of the estate. Where both husband and wife died in circumstances which left it uncertain which of them died first, as for example in an accident, the younger would no longer be presumed to be the survivor of the older, and would therefore receive no benefits under the intestate succession rules.

A surviving spouse who is entitled to a life interest would have the right to call upon the personal representative of the intestate to redeem that life interest by a lump sum computed on the arbitrary basis set out in the Bill. If the intestate died intestate as to part only of his or her estate, the surviving spouse would have to bring into account, against the statutory legacy of £5,000 or £20,000, any benefit received under the will.

The Bill also includes proposed amendments of the Inheritance (Family Provision) Act, 1938. These would extend that Act to estates of persons dying intestate, would increase the provision which may be made out of capital from £2,000 to £5,000, and would remove the present restrictions on the Court's discretion to make provision for surviving spouses and dependants.

Interest Rates Follow Bank Rate

By the end of last week the money market had its first opportunity to adjust itself to the Bank Rate of 4 per cent which came out of the Budget Speech of the previous Tuesday. £200 million Treasury bills were offered for tender and the average rate of discount was £2 6s 3·64*d* per cent compared with an allotment rate of £1 0s 7·09*d* the week before. This new rate was considered to be about in line with the other changes in the interest rate structure in the market which had already taken place over the intervening few days between the Budget and the allotment on Friday.

The clearing banks' rate against Treasury bills has gone up from ¾ to 2 per cent and the special loan rate of the Bank of England had increased from 2 to 3½ per cent.

The Building Societies' Association have also decided to take the rise in the Bank Rate as an occasion to recommend their members to raise their mortgage rates (by ½ per cent to a minimum of 4½ per cent) and their share and deposit rates by ¼ per cent (to 2½ per cent on shares and 2 per cent on deposits). Until now the building societies movement as a whole has resisted circumstantial pressure on its own rates except in the case of two large societies which went their own way towards the end of last year and raised their rates shortly after the first increase in the Bank Rate.

[1] H.M.S.O. 3*s* net.
[2] Cmd. 8310.

FINANCE AND COMMERCE

The higher Bank Rate is proving to be the most powerful market factor arising from the Budget. Values are falling back on to a still higher yield basis.

'Simple Salient Facts'

An excellent point has been made by a writer in the *Financial Times* in connexion with the accounts of The Bajoe Kidoel Rubber & Produce Co Ltd. Sir Eric Miller, the company's chairman, had felt it his duty to present certain 'simple salient facts' to shareholders so that they should not be frightened out of their holdings at what, on the face of it, he said, was an absurdly low price, even in 'jittery' times like the present.

Noting that the £1 stock units had been changing hands at under 15*s*, Sir Eric pointed out that this showed a market capitalization well below the figure of the cash and British Government securities held in London. This took no account whatever of estates comprising 8,000 acres under rubber, 4,500 acres of which were budded and mostly in bearing; 3,000 acres under coffee and 800 acres under kapok, with appropriate buildings, machinery and plant. The company's gross capitalization, including current and all fixed assets, Sir Eric stated, was only £20 an acre.

The comment on this statement was well founded. 'Nobody examining the Bajoe Kidoel accounts', the writer declared, 'could have told how much of the cash was held in London and how much in Indonesia. The facts brought out by Sir Eric in his address are welcome. Could they have been incorporated in the company's annual report?'

Obviously they could have been, and this week's reprint shows how another company deals with the position.

The Example

The reprint is of the accounts of British Rubber Estates of Java Ltd. This company, under the chairmanship of Mr T. Taylor, shows the location of its assets in Java, Malaya, Indonesia and London. The greater part of the company's liquid assets is in Indonesia where, as the note to the cash item shows, the cash position is subject to Indonesia exchange control restrictions – and one can be a millionaire behind an exchange control curtain but scraping the bottom of the barrel outside it. As Mr Taylor says: 'Probably the exchange regulations have their most [illegible]ious effect when it comes to remitting to this country the profit earned for the year by the Indonesia estates.' For reasons of space we have had to omit the many notes and schedules incorporated in the balance sheet, our main purpose being to show the treatment of the cash position.

One gains from the chairman's review of such a company as this a close impression of what is happening to the plantation companies in the Far East. Mr Taylor refers to 'renewed hostile activity' which cost the estate manager his life. European staff were directed to leave the estates and find residence elsewhere. They now pay 'irregular periodic visits' to the estates to instruct the native staff on work to be done.

A substantial part of the crops is stolen, on one estate as much as 30 per cent of the coffee and on another 'we are regularly losing by illicit tapping', says Mr Taylor, 50 per cent of the rubber. And this, in spite of the fact that in the latter case some Rp55,000 had to be paid to the population on the estate and the leading trade union as a reward for their not having destroyed the whole of the plantations.

The 'Civic Chest'

We find ourselves more in tune with the second issue of Coventry's 'Civic Chest' which we have recently received with the City Treasurer's compliments. Last year, it may be recalled, we were rather unsympathetic (*The Accountant*, January 13th, 1951, page 37). The object was admirable. In the 'Civic Chest' Coventry seeks to explain the city's finances to its people. The demand for the first issue, says the treasurer, was 'especially gratifying because it came from exactly those classes of the community which the council had in mind – senior scholars, youth clubs, community centres, ratepayers' associations and political parties'.

Our comment was directed to the Isotype diagrams by which it was hoped to give interest and explanation to the financial data. The treasurer admits this year that while 'laymen seemed to have little difficulty in understanding the diagrams, some of the professional readers thought them too complicated and more difficult to understand than the tables upon which they were based'.

Diagrams are retained in the second issue of the 'Civic Chest' but merely to illustrate the text pictorially. There is none of the 'each arrow represents £250,000'. Two, in particular, are important. They show, says the treasurer, the declining relative importance of local authorities as independent economic units through increasing dependence on Government grants. Both are 'melancholy tendencies to a city councillor. They diminish his sphere of influence and weaken the financial independence of his authority.'

While we think the second issue is a great improvement, we also note that the method of presentation is still experimental. The treasurer asks for suggestions about the future contents of the 'Civic Chest'. Here, we suggest, is an opportunity for the accountants of Coventry to co-operate with the treasurer.

Money Market

The average Treasury bill rate on March 14th rose to £2 6*s* 3·64*d* per cent following the Bank Rate rise. The market's bid was £99 8*s* 5*d* and 69 per cent allotment was received. Applications totalled £250,350,000.

BRITISH RUBBER ESTATES OF JAVA LIMITED AND SUBSIDIARY COMPANY SOUTH JOHORE RUBBER ESTATES LIMITED

Consolidated Balance Sheet at April 30th, 1951*

			£
Capital and Reserves			
Capital:			
Authorized – 7,500,000 shares of 2*s* each	£750,000 0 0		
Issued – Stock – 7,189,876 units of 2*s* each, fully paid			718,987
Under the terms of the Original and Supplemental Trust Deeds relating to Debenture redemption, Option certificates with the right to subscribe for shares at par have been issued as follows:			
(*a*) for 162,600 shares, expiring January 1st, 1955;			
(*b*) for 73,750 shares, expiring June 30th, 1955.			
Capital Reserves:			
Surplus on acquisition of Shares in Subsidiary Company		£7,482	
Forfeiture of Shares		806	
			8,288
Revenue Reserves:			
Debenture Stock Premium Reserve		5,326	
Pre-Invasion Reserves towards Replanting:			
Java Estates	£9,095		
Malayan Estate	723		
		9,818	
Profit and Loss Account		*18,782	
			33,926
			761,201
Deduct: Profit and Loss Account – Debit Balance			–
**After writing off loss of Fixed Assets and of Liquid Assets (net), by reason of Japanese occupation of Java and Malaya, aggregating £68,897 10s 10d.*			
			761,201
7 per cent Convertible and Redeemable Debenture Stock			
Authorized £150,000; £85,476 of the £132,000 issued have been cancelled and of these £50,895 cannot be re-issued		45,705	
Add Interest accrued (gross) for period January 1st, 1951, to April 30th, 1951		1,066	
			46,771
Sum set aside for Future Taxation			18,500
Current Liabilities and Provisions			
Provision for Malayan and United Kingdom Taxation:			
British Rubber Estates of Java Limited		15,000	
South Johore Rubber Estates Limited		9,664	
		24,664	
Indonesia – Creditors (including £41,352 for Indonesia Company Taxation)		72,545	
Malaya – Malayan Industrial Rehabilitation Finance Board Creditors		6,082	
London – Creditors		3,952	
			107,243
			£933,715

[* For space reasons it has been possible to reproduce only a modified version which excludes the notes, schedules and previous year's comparative figures. – Editor.]

	Cost	Depreciation	Net		£
JAVA					
Leasehold Estates at Purchase Prices, plus cost of additions					661,252
ESTATES REOCCUPIED					
Sumber Mangis Kidul, Tugusari, Tjimenteng, Tugu, Tybar and Tjirangkas Bitung Estates:	£	£	£		
Buildings	30,349	11,759	18,590		
Plant, Machinery, Vehicles and Equipment	39,384	21,721	17,663		
	£69,733	£33,480	£36,253		36,253
					697,505
MALAYA					
Leasehold Estate, at purchase price plus cost of additions – 1,081 acres				£64,858	
	£	£	£		
Buildings	8,682	3,460	5,222		
Plant, Machinery, Vehicles and Equipment	2,942	1,548	1,394		
	£11,624	£5,008	£6,616	6,616	
					71,474
					768,979
Indonesian Government 3 per cent Subscription Loan					13,381
Liquid Assets					
INDONESIA					
Stocks of Produce at net prices since realized and at valuation:					
Rubber				Rp.699,506	
Coffee				30,017	
Tea				187,149	
				916,672	
Stocks of Stores on Estates				299,465	
Debtors				341,056	
Cash (subject to Indonesia Exchange Control Restrictions)				2,274,203	
				Rp.3,831,396	
at Rupiahs 32 to the £				£119,731	
MALAYA					
Stock of Rubber at net prices since realized			£706		
Stock of Stores on Estate			519		
Debtors			4,676		
Cash			5,371		
				11,272	
LONDON					
Debtors			27		
Quoted Investment, written off (*Market Value April 30th, 1951, £62 10s*)			—		
Cash			15,065		
				15,092	
					146,095
Rehabilitation Expenditure Account (Subsidiary Company)					5,260
					£933,715

THE ROYAL COMMISSION

THE INSTITUTE'S MEMORANDUM

In June 1951 the Council of The Institute of Chartered Accountants in England and Wales submitted to the Royal Commission on the Taxation of Profits and Income a memorandum dealing with 'Part A, General Social and Economic Questions'. The Council has now submitted to the Royal Commission a memorandum dealing with 'Part B, Particular Matters'. The Part A memorandum dealt largely with matters which fall to be considered in more detail in the Part B memorandum.

The Part B memorandum is a large document of some hundred foolscap pages and is therefore too large for reproduction in full. It is arranged under the headings on which the Royal Commission indicated that it wished to receive evidence, together with further headings not specifically mentioned by the Royal Commission. Each Head in the Part B memorandum consists of explanatory matter leading to submissions and we reproduce below the headings and the submissions, without the explanatory matter except that some parts of the explanatory matter are included where it is necessary to the understanding of the submissions. Explanatory matter is printed in italics and the submissions are printed in ordinary type. For those readers who wish to refer to the memorandum (which is available to members of the Institute without charge on application) we have included the relevant paragraph numbers of the memorandum.

PART B. PARTICULAR MATTERS

(35) *The Council of the Institute has no means of knowing the extent to which any particular change in legislation would result in a reduction or an increase in the amount of revenue. The Council has made such submissions as it thinks right in order to improve the taxation system and has regarded the effect on the yield of taxation as being one for consideration by the Royal Commission with the assistance of the Inland Revenue department. This aspect of the Royal Commission's inquiry is therefore not dealt with in this memorandum.*

(36) *At the time of preparing this memorandum, the Budget proposals of the Chancellor of the Exchequer, which it has now been announced will be introduced on March 11th, 1952, are of course unknown, except that the Government has already announced its intention of introducing legislation for some form of excess profits tax. The Council has not attempted to comment on excess profits tax, in the absence of any information on the form which the tax is likely to take and its relation with the existing profits tax. If the Council considers it necessary to do so, a further memorandum will be submitted to the Royal Commission dealing with matters arising from the Budget proposals.*

Head No. 4 (a): Is the taxation net drawn too widely or too narrowly in relation to the taxation of United Kingdom residents (companies or individuals) on overseas profits?

(46) Legislation should be introduced to remove from the scope of Cases I and II of Schedule D profits arising from business activities carried on overseas and to provide that United Kingdom taxation is to be charged on such profits only to the extent of remittances to the United Kingdom and subject to appropriate relief for overseas tax.

(52) If the submission in paragraph 46 relating to business profits is not adopted:

(*a*) Legislation should be introduced to provide that profits from overseas businesses should not be charged to United Kingdom income-tax until the income comes within the disposition of the assessee and is legally capable of conversion into sterling.

(*b*) In cases where overseas profits can be transferred to the United Kingdom only by exchanging them for sterling at a rate less favourable than the 'official' rate, the overseas profits should, for taxation purposes, be converted at the rate at which remittances were actually made or, if not remitted, at a fair rate having regard to all the circumstances including the extent to which it would have been possible to remit them.

(53) Similar provisions should apply in relation to interest, dividends, rents and other overseas income of United Kingdom residents where tax is at present charged on the income arising irrespective of whether or not it is actually remitted to the United Kingdom.

* * *

(58) Legislation should be introduced to provide that in the case of a person who is 'resident' in the United Kingdom for the purpose of the Income Tax Acts and holds an office or employment overseas (whether or not it is a 'public office or employment') the duties of which are performed wholly or mainly overseas, income-tax should be charged only on remittances to or payments in the United Kingdom during the period in which the office or employment is held.

(59) *In paragraph 12 (b) under Part A the Council stated that it wished to support the principle of the recommendation made in paragraph 89 of the report of the Tucker Committee which relates to the spreading of the sur-tax burden where large fluctuations occur between the earnings of one year and another. That recommendation would be particularly important in connexion with income from overseas sources, where a remittance is received after a number of years during which it has not been possible to remit to the United Kingdom. The submissions in paragraphs 46, 52, 53 and 58 should therefore be read in conjunction with that recommendation.*

* * *

(61) The relief under Section 34 of the Finance Act, 1927, should be extended to interest or dividends from overseas sources.

Head No. 4 (b): Is the taxation net drawn too widely or too narrowly in relation to the taxation of non-residents on United Kingdom profits ?

(*No submission*)

Head No. 4 (c): Is the taxation net drawn too widely or too narrowly in relation to the definition of residence etc. ?

(69) Legislation should be introduced to provide that:

(*a*) The availability of a place of abode in the United Kingdom shall not of itself be a determining factor in deciding questions of 'residence'.

(*b*) Statutory force shall be given to the concession under which a person who comes to the United Kingdom to take up permanent residence, or who ceases permanently to reside in the United Kingdom, is not charged to United Kingdom taxation in respect of a period greater than that spent in the United Kingdom in the year of assessment.

Head No. 5 (a): Are there any kinds of profits or income which are not charged but should be; or which are charged but should not be?

(77) Where the holder of an office or employment receives benefits in kind which can properly be regarded as part of his remuneration, the estimated value to the employee of those benefits should be treated as an addition to the monetary remuneration; but such estimated value should not necessarily be measured by the cost incurred by the employer in providing the benefits.

* * *

(91) The portion of life annuity payments which consists of the return of the purchase price paid by the annuitant should not be charged to income-tax.

* * *

(93) All social security benefits payable by the State, with the exception of retirement pensions, should be exempt from income-tax.

Head No. 5 (b): Is the present distinction between profits liable to charge and those not liable to charge as being capital profits satisfactory ?

(107) The present distinction between profits liable to charge and others not liable to charge as being capital profits is satisfactory; and there should therefore be no extension of the scope of income-tax beyond income as generally understood.

Head No. 6: Is the basis of computing income from property under Schedules A and B satisfactory ?

(116) (*a*) Where property is let for profit, as distinct from property held for occupation, the basis of assessment should be the actual income in excess of outgoings, the assessment being made under Case I, Schedule D; but for administrative reasons, assessments would continue to be made under Schedule A, the amount of the assessment under that schedule being taken into account in arriving at the amount of any Schedule D assessment or loss as the case may be. Transitional provisions would be necessary, in particular to enable relief under Schedule D to be given in respect of maintenance expenditure for which full relief had not been obtained under Schedule A at the time of the change-over. If it were thought desirable, as a matter of administrative convenience, the legislation could specify a maximum amount of annual rents up to which the smaller property owners would not be assessed under Schedule D, unless the taxpayer makes an irrevocable election to be assessed under that schedule.

(*b*) Adequate allowances should be made for amortisation of the cost of buildings and leases.

(118) *Under either the recommendations of the Tucker Committee or under the Council's submission at (a) of paragraph 116 there would still remain some properties let for profit on which the taxpayer would continue to be charged under Schedule A. Many of these properties will be rent-controlled at pre-war rents and it is probable that the present high cost of repairs will result in many maintenance claims. In the case of much property the only effective method of repair may be complete rebuilding but the cost of such rebuilding cannot under present legislation be included in a maintenance claim except in the case of expenditure on the improvement and replacement of farm property. Another inequity is that the excess of maintenance expenditure relief over the net annual value cannot under present legislation be either carried forward or set off against other income except in the case of agricultural property. The Council therefore wishes to make the following further submissions.*

(119) (*a*) With a view to minimizing the number of maintenance claims the statutory allowance should be increased.

(*b*) Where the rebuilding of property is the only effective method of repair, the cost of rebuilding should be allowed to be included in a maintenance claim.

(*c*) The excess of maintenance expenditure relief over the net annual value should be allowed for all properties, as it is at present allowed for agricultural property under Section 32, Income Tax Act, 1945.

* * *

(122) Schedule B should be abolished except that the existing system should be preserved in the case of woodlands.

Head No. 7: Should the present rules about deductions for outgoings and expenses be altered ?

(130) New legislation should be introduced:

(*a*) To provide that profits for income-tax purposes shall be computed in accordance with accepted accounting principles, the gross revenue being charged with the whole expense incurred in earning revenue and with all other expense or loss incurred for the purposes of the business or arising out of or in connexion with the conduct of the business; except that no allowance shall be made for any annual payments from which the

taxpayer is authorized to deduct income-tax under Rule 19 of the rules applicable to all schedules;

(b) To provide that the allowance of a particular item of expense shall not depend on whether the recipient will be liable to income-tax on the amount received or whether the recipient is resident in the United Kingdom;

(c) To permit, in computing profits, the deduction of annual amounts for the amortisation of all capital expenditure other than that incurred on the acquisition of non-depreciating assets, such annual amounts to be calculated on accepted accounting principles;

(d) To provide for the earliest possible clearance of the complicated position which has been created by the accumulation of piecemeal legislation (for which purpose bold measures may be necessary without undue details);

(e) To provide that no expenditure should be disallowed as being capital unless an amortisation charge is allowed, except where the expenditure is incurred on the acquisition of non-depreciating assets;

(f) To provide that accepted accounting principles should be applied in determining whether or not the expenditure should be allowed as an immediate charge or by means of an annual amortisation charge.

* * *

(136) Rule 9 of Schedule E should be amended so as to permit the deduction of expenses which, having regard to all the relevant circumstances, are fairly and reasonably incurred and defrayed in relation to all the offices or employments held or for the better exercise thereof.

Head No. 8: Are the provisions for relief in respect of double-taxation satisfactory?

(141) *The Council is of opinion that the taxation nets of the United Kingdom and many other countries are cast too widely, with the result that the double-taxation relief arrangements are excessively complex and yet are often inadequate to avoid hardship. The Council considers that the colossal and complicated volume of relief law which has been growing in the last few years would largely be unnecessary if overlapping governmental tax policies could be replaced, on a multilateral basis, by a wise and good-neighbourly policy of defining in principle whether particular sources of income should be assessable in the country of origin of the income or in the country of residence of the person entitled, with consequent exemption in the other country. Such a new approach would of course require much international discussion and a satisfactory result could not be achieved in a short time. It is however considered that steps should be taken as soon as possible with a view to achieving this great measure of simplification.*

(142) *Meanwhile there are a number of inequities and anomalies which arise under existing double-taxation agreements and under the provisions for unilateral relief and these are dealt with in the paragraphs below.*

* * *

(145) Legislation should be introduced to provide that the overseas tax on any income forming the basis of assessment for more than one year in the United Kingdom shall rank for tax credit relief for each of those years of assessment.

* * *

(149) Legislation should be introduced to provide that overseas tax on income borne indirectly shall be taken into account in calculating the effective rate of United Kingdom tax.

* * *

(153) The double-taxation agreements between the United Kingdom and all other countries should contain specific provision whereby, in the case of a person resident in both countries which are parties to the agreement, the tax credit would be given by the country other than that in which the income arises.

* * *

(155) The double-taxation agreements between the United Kingdom and all other countries should contain provision whereby, in the case of a person who is resident in both the contracting countries and who receives income from a third country, each of the two contracting countries would grant a tax credit equal in total to the lower of the two taxes and shared in proportion to the amount of tax otherwise chargeable in each of these countries as reduced by any credit allowed in respect of tax imposed in the third country from which the income is derived.

* * *

(157) Rule 1 of the Sixth Schedule to the Finance Act, 1950, should be amended so as to provide that the relief shall be calculated by reference to a proportion of the United Kingdom tax chargeable in respect of income *chargeable* (instead of arising) in the overseas country.

* * *

(159) Rule 3 of the Sixth Schedule to the Finance Act, 1950, should be amended so as to provide that in considering the amount of any credit to be allowed for tax paid under the law of an overseas territory to a company resident in the United Kingdom which controls directly or indirectly not less than one-half of the voting power in the overseas company, the dividend to be taken into account shall be the dividend received directly or indirectly by the company resident in the United Kingdom.

* * *

(162) Statutory authority should be given for the deduction of tax by paying agents at a reduced rate where relief under double-taxation agreements, or by unilateral relief, is due; and such authority should permit the passing on of relief at the maximum rate calculated by reference to the standard rate of income-tax.

* * *

(167) Double-taxation agreements to which the United Kingdom is a party should be amended so as to provide that in both the contracting countries information shall be available to enable the taxpayer to ascertain the percentage of exemption and the country whose tax has given rise to the exemption.

Head No. 9: Should the present system of graduation by means of the exemption limit, personal allowances, reduced rate relief and sur-tax be altered?

(171) There should be an increase in the number of reduced rates of income-tax so as to allow a more

gradual rise to the point at which the standard rate becomes chargeable.

* * *

(177) (*a*) The level of income on which earned income relief is granted should be raised.

(*b*) For sur-tax purposes a distinction should be made between earned income and unearned income by allowing the deduction of the earned income relief allowed for income-tax purposes, or by charging sur-tax on earned income at a lower rate than that charged on unearned income.

Head No. 10: Should the existing differentiation between earned and unearned income be extended or reduced?

(No submission, but see paragraph 177 above)

Head No. 11: Are alterations necessary in the rules governing personal and other allowances?

(185) (*a*) There should be marginal relief in cases where the income of the child is in excess of the maximum permissible for the granting of the full child allowance.

(*b*) There should be an amendment of the rules relating to children over the age of sixteen so that a child allowance could be granted where the child is genuinely pursuing full-time studies.

(*c*) The income limit in the case of apprentices should be brought into line with the normal income limit for child allowance. If this submission is not adopted, so that the income limit for an apprentice remains smaller than that for a normal child allowance, the provisions of the law under which the amount of any payments to an apprentice are ignored up to the amount of any premium paid, should be amended so that such payments are also ignored for the purpose of the income limit under the 1920 Act.

* * *

(187) For the purpose of calculating the restrictions to life assurance relief, no account should be taken of the amount of any additional premium which the assured has been required to pay by reason of the assurance company not being prepared to accept the risk at normal rates.

* * *

(190) There should be a substantial increase in the income limit for the purpose of age relief and the limit should be applicable only to unearned income; but the aggregate of the earned income relief and the age relief should not exceed the normal limit for earned income relief.

* * *

(194) The legislation in respect of the housekeeper allowance should be amended so that:

(*a*) The allowance would be available even though a child allowance is not obtained because the child's income is in excess of the maximum for that purpose.

(*b*) The condition that a female relative or, where applicable, a person employed, must be resident with the taxpayer would be removed.

(*c*) The allowance would be available in respect of a male person employed.

Head No. 12: Should the rules about the taxation of husband and wife be altered: (a) as regards aggregation; (b) in any other respect?

(202) (*a*) The taxation penalty on marriage and the corresponding taxation benefit from separation or divorce should be removed by amending legislation so that:

(i) The married personal allowance is double the allowance for a single person.

(ii) The reduced rates of tax are applied separately to the taxable income of the husband and the taxable income of the wife, whether the incomes are earned or unearned.

(iii) Any limit on earned income relief is applied separately to the earned incomes of the husband and wife. (If this is not accepted, the present additional personal allowance in respect of a married woman's earned income should be retained.)

(iv) The total sur-tax liability is the aggregate of the amounts of sur-tax which would be payable on the income of the husband and wife if computed separately.

(*b*) Either spouse should have the option of requiring separate returns to be made, without the necessity of having separate assessments.

Head No. 13: Should P.A.Y.E. be altered or abolished?

(The Council's memorandum contains no submissions under this Head. The Council has indicated that it does not wish to suggest any fundamental change: and in the Part A memorandum (paragraph 22) the Council stated that on balance it was not satisfied that it would be advantageous for payments and contributions under social security legislation to be linked directly with income-tax.)

Head No. 14: Should the principle of deduction at source be extended or restricted?

(219) In general the principle of deduction of income-tax at source should be neither extended nor restricted but the following modifications should be made in carrying out the principle:

(*a*) A tenant should have the right to deduct from rent, or recover from the landlord, the full amount of Schedule A tax paid by the tenant, instead of being restricted to the amount which he can deduct from the next payment of rent after paying the tax; except that the existing 'beneficial occupation' principle, under which the tax recoverable is limited to tax at the standard rate on the annual rent, should continue.

(*b*) Subject to any commitments under the terms of issue of existing stocks, all interest paid to United Kingdom residents on government stocks (including those held on the Post Office register) should be paid after deduction of tax at the standard rate.

(c) The rate at which tax is deducted from payments under Rule 21 of the general rules should, as in the case of Rule 19, be the standard rate in force at the time the payment became due and the gross amount when received should be treated as income of the recipient at the time or times when it became due.

Head No. 15: Should the method of assessment to sur-tax be altered, and in particular should it be deducted from salaries?

(221) Sur-tax should continue to be paid direct by the individual and should not be deducted from salary.

Head No. 16: Are any alterations desirable in the system of administration and the functions of the various statutory bodies or persons connected with taxation?

(236) (a) The law relating to appeals should be amended to accord with existing practice whereby at the time of making the appeal it is not necessary for the taxpayer to specify whether the appeal is to be heard by the General Commissioners or by the Special Commissioners; and the Inspector of Taxes would be required, before listing cases for appeal, to request the taxpayer to state within a specified period (say twenty-one days) by which body of commissioners he wishes his appeal to be heard.

(b) The law should be amended so that where any matter is left to the discretion of the Commissioners of Inland Revenue the taxpayer would have a right of appeal against the decision of those commissioners.

(c) The existence of the General and the Special Commissioners and the Board of Referees is in principle highly desirable and the functions of these bodies should be continued; but the Special Commissioners should become two separate bodies, having different titles, one dealing with appeals and the other dealing with administrative matters and the members of the Board of Inland Revenue should be *ex officio* members of the administrative commissioners only.

* * *

(238) Section 89 of the Income Tax Act, 1918, should be amended so as to extend to Schedule E the declarations required under that section of persons appointed to the offices specified in the Fourth Schedule to the Act.

* * *

(241) Consideration should be given to the possibility of amending the various time limits imposed by the Income Tax Acts, having regard to the desirability of:

(a) Extending to six years the time limit for making claims which at present must be made within a shorter period.

(b) Extending to two years the time limit for exercising options which at present must be exercised within one year.

(c) Extending to thirty days the time within which an appeal must be made against an income-tax assessment or a sur-tax assessment.

* * *

(243) (a) Section 24, Finance Act, 1923, should be amended so as to extend to Schedules A and B as well as D and E.

(b) The powers of the Inland Revenue under Section 125, Income Tax Act, 1918, and the rights of the taxpayer under Section 24, Finance Act, 1923, should be reconsidered with a view to bringing the former into line with the latter.

* * *

(246) The law relating to the charging of interest on unpaid taxes should be amended so that:

(a) The taxpayer would have the right to appeal to the General Commissioners to decide whether in all the circumstances the charging of interest is just and reasonable.

(b) There would be statutory provision for set-off of taxes due and taxes repayable as between one period and another and as between one tax and another.

* * *

(248) (a) The Board of Inland Revenue should continue to make extra-statutory concessions in appropriate cases and, if it is thought necessary, the Board should be given statutory authority to do so.

(b) Concessions which have become of general application should, where possible, be incorporated in the law.

* * *

(250) It is undesirable in principle that the Inland Revenue should have the right to choose between the Cases of Schedule D in assessing a particular taxpayer.

Head No. 17: Are any changes in the provisions against avoidance and evasion desirable?

(253) The anti-avoidance provisions of the Income Tax Acts should be reviewed with the object of amending all provisions which are drawn in unduly wide terms, having regard to the principle that the general body of taxpayers should not be subjected to uncertainty merely to ensure that additional revenue is extracted from a small number of offending taxpayers.

* * *

(255) Unless there are wholly exceptional circumstances, it should be a principle of United Kingdom taxation that legislation should not be introduced to operate from a date earlier than that on which a government statement has been made in Parliament indicating the intention to introduce the specific legislation concerned.

* * *

(268) The penalty provisions of the Income Tax Acts should be reviewed with the object of:

(a) Removing doubts as to the circumstances in which immunity from penalty proceedings is available.

(b) Giving immunity from criminal proceedings in cases where a full disclosure is voluntarily made before any proceedings or inquiries have been commenced.

(c) Relating monetary penalties to the amount of the underpayment of tax.

(d) Removing any provisions under which any person is deemed guilty unless he proves himself innocent.

Head No. 18: Is any alteration necessary in the rules governing the taxation treatment of special classes of taxpayers (e.g. public corporations, co-operative societies, charities)?

(271) Subsection (2) of Section 30 of the Finance Act, 1921, which relates to charities, should be repealed in so far as it provides that exemption from tax shall not extend to any parts of property which are in the use and enjoyment of a person whose total income amounts to £150 or more. (See Head No. 5 regarding the benefit received by the person having the use of part of the property.)

* * *

(274) The Income Tax Acts should be amended so that the taxpayer is not prejudiced where his transactions are with the Crown or diplomatic representatives of overseas countries.

* * *

(282) . . . *the Council wishes to support the recommendations made by the Tucker Committee in paragraphs 294 to 296 of its report to the effect that, instead of treating a group as a whole,*

(*a*) If one company in a group agrees to make a payment out of, but not exceeding, its profits (after capital allowances) to another company in the group which has incurred a loss (after capital allowances) any payment made under such an agreement should be treated for income-tax purposes as a business expense incurred by the paying company and a business receipt by the receiving company.

(*b*) If the company which makes the payment is purely a holding company the payment should be treated as an expense of management for the purpose of a claim under Section 33 of the Income Tax Act, 1918.

* * *

(284) Where stock-in-trade held by a company in a group has been purchased from another member of the same group, a deduction should be allowed for taxation purposes in respect of the total inter-company profits on that stock-in-trade; such deduction being allowed against the profits of whichever company in the group has made the adjustment in its accounts.

* * *

(286) Where a company in a group holds at the balance sheet date a fixed asset and the price which it has paid for it includes profit assessable on another member of the same group, the inter-company profit, if eliminated in the accounts of the group, should be allowed as a deduction in computing the profits of that other member of the group and, if so allowed, the inter-company profit should be deducted from the price paid by the purchasing company for the purpose of calculating that company's amortisation charges.

* * *

(289) (*a*) Any loss which a partner may have sustained, as his share of the partnership results, should be available to him in accordance with the loss provisions of the Income Tax Acts, the other partners being charged on their full share of the profits.

(*b*) Where annual charges payable by a firm exceed the firm's income, each partner's proportion of the excess should be treated as having been paid by him to the extent that he has other chargeable income.

* * *

(291) Section 33 of the Income Tax Act, 1918, should be extended so as to permit personal representatives of deceased persons and trustees to recover income-tax on management expenses payable out of income.

* * *

(293) If income accruing before the death of a person is to be included in the sur-tax assessments of persons entitled to absolute interests in the residue of his estate, the estate duty paid thereon should be deductible in computing the residuary income so assessable to sur-tax.

* * *

(296) Legislation should be introduced so that:

(*a*) The beneficiaries under a will or settlement would not be chargeable to income-tax on any sums paid by the trustees out of capital.

(*b*) The trustees of a will or settlement would not be liable to a Rule 21 assessment on sums paid out of capital or on sums paid out of undistributed income of previous years.

(297) The provisions of Section 23 of the Finance Act, 1951, under which for sur-tax purposes building society interest is deemed to represent a net amount after deducting tax at the standard rate, should be extended so as to apply also for computing Rule 21 assessments for income-tax purposes.

Head No. 19: Relief for losses

(299) (*a*) Section 34 of the Income Tax Act, 1918, which relates to the set-off against other income of losses incurred in any trade or profession, should be extended so as to relate to a loss incurred by the taxpayer on any transaction which, if it had resulted in a profit, would have been chargeable to income-tax.

(*b*) As recommended by the Tucker Committee in paragraph 83 of its report, there should be a right of appeal to the courts from decisions of Commissioners in connexion with claims under Section 34 of the Income Tax Act, 1918.

(*c*) There should be no time-limit on the period for which losses can be carried forward against future income.

(*d*) Losses so carried forward should be available for set-off against any other income under whatever schedule it is chargeable.

(*e*) The taxpayer should have the option of setting off losses against any income of, say, the three preceding years of assessment.

(*f*) If the submissions under Head No. 7 are not adopted in full, specific amendments should be made to deal with losses which are not at present recognized as such for income-tax purposes, such as the excess building society interest referred to in paragraph 298 above.[1]

* * *

(302) If the submission in paragraph 299 (*d*) is not adopted, Section 22 (2) of the Finance (No. 2) Act, 1945, should be amended so that losses carried forward should be available for set-off against all forms of

[1] Paragragh 298 is not reproduced.

business income whether charged under Case I or by deduction at source.

* * *

(304) An investment holding company should be permitted to carry forward without time-limit unrelieved management expenses, bank interest and Rule 21 assessments, thus being placed as far as possible as if charged under the rules applicable to Case I, Schedule D.

Head No. 20: Basis year for assessment

(309) *In paragraph 63 of its memorandum to the Tucker Committee, the Council made submissions on the basis that the amount of the assessment for any fiscal year should be computed by apportioning on a time basis the actual profits of the accounting periods falling within the fiscal year. The Tucker Committee considered this question of the basis year at some length in paragraphs 19 to 66 of its report. The Committee stated that it began consideration of the problem 'with a strong predilection for a change to some form of current year basis', but it was unable to find a solution to the objections to various schemes and it came to the conclusion that a current year basis is impracticable in the United Kingdom. The Council shares the disappointment of the Tucker Committee in not having been able to find a suitable method of introducing a current year basis. The objections to which the Tucker Committee was unable to find a solution are summarized in paragraph 65 of its report and it will be seen from that paragraph that all the objections are administrative ones. The Council considers that the disadvantages of any basis other than actual profits are so great that further study should be made of this problem with a view to finding means of overcoming the administrative difficulties which influenced the Tucker Committee. The Council therefore hopes that such a further study will be undertaken and the Council considers that a useful approach would be to consider whether corporate bodies could be transferred to an accounting year basis as in the case of profits tax, even though such a change may not be practicable for non-corporate taxpayers.*

* * *

(310) *Pending such re-examination of the main problem, there are two particular aspects of the present position to which attention should be given and these are dealt with in succeeding paragraphs.*

* * *

(312) Pending the working out of satisfactory arrangements for an actual year basis of assessment, provision should be made whereby the 'cessation' provisions applicable to Cases I and II of Schedule D should be applied in cases where a part of a business has been disposed of.

* * *

(314) (*a*) The law relating to Cases III, IV and V of Schedule D should be amended so that the basis of assessment would be the actual income for the year of assessment.

(*b*) If the foregoing submission is not adopted, Section 21 of the Finance Act, 1951, should be amended so that where there is an interruption in the income from a source chargeable under Cases III, IV or V of Schedule D (the source still being held) the cessation provisions would apply.

Head No. 21: Rising Price Levels

(*The Council has made no submissions on this subject but the whole of the Council's memorandum in Head 21 will be reproduced in our next issue*).

Head No. 22: Profits tax

(352) (*a*) The profits tax should be abolished and at the same time all liability to the future withdrawal of non-distribution relief should be cancelled.

(*b*) Until effect is given to the preceding submission, the profits tax legislation should be amended so as to provide that where the profits for income-tax purposes are insufficient to enable full allowance to be obtained in respect of a distribution charge, the excess distribution charge should be reduced by income-tax at the standard rate.

(*c*) Until effect is given to the submission in (*a*) above, the profits tax legislation should be amended so as to make it clear that where profits tax is restricted under Section 39, Finance Act, 1947, to the lower rate in respect of distributions to an overseas controlling company, the difference between the lower rate and the higher rate shall not be treated as non-distribution relief.

* * *

(353) *So long as the profits tax is continued in its present form there are a number of specific matters on which the legislation should be amended and these are dealt with in the succeeding paragraphs.*

(357) (*a*) The limitation on the deduction allowed for directors' remuneration should be abolished, in view of the income-tax and sur-tax to which the remuneration is subject in the hands of the directors.

(*b*) If submission (*a*) is not accepted:

(i) There should be an increase in the maximum shareholding permitted for qualification as a whole-time service director.

(ii) Apart from the existing limit of 15 per cent of the profits (with a maximum of £15,000) there should be only one other overriding limit consisting of a total sum according to the number of directors; for example the Tucker Committee stated in paragraph 321 of its report that 'we see no reason why the rule should not be amended to provide that remuneration up to £2,500 per annum should be allowed for each full-time working director'.

(iii) Where debenture or loan interest is paid to a director, the interest should be aggregated with the remuneration payable to directors for the purpose of computing the maximum deduction permissible for remuneration; otherwise debenture or loan interest may be treated as a distribution although the remuneration may be below the maximum.

* * *

(359) Where there is franked investment income and other chargeable income, distributions should be deemed to be made first out of franked investment income.

* * *

(361) Where the whole of the income from any particular source has been apportioned for the purposes of Section 21 of the Finance Act, 1922, that income should be wholly exempt from charge to profits tax.

* * *

(363) The expression 'any sum' which appears in subsections (1) (*b*), 2 (*a*), (3) and (4) (*b*) of Section 31, Finance Act, 1951, should be amended to read 'any distributable sum'; or alternatively the definition of reduction of capital which appears in this section should be amended to make it clear that it does not include reductions of capital caused by losses.

* * *

(366) Section 32 of the Finance Act, 1951, should be amended in the following respects:

(*a*) Subsection (1) which gives the Commissioners power to 'direct that such adjustments shall be made as respects liability to the profits tax as they consider appropriate' should be related to liability to the profits tax in a specified chargeable accounting period.

(*b*) Subsection (3) should be repealed in view of the powers which are given to the Commissioners of Inland Revenue by subsections (1) and (2).

Head No. 23: Corporation Duty

(374) Consideration should be given to the abolition of the corporation duty, having regard to the negligible net revenue which it produces, the nature of the bodies on which the charge falls and the more useful employment of the civil servants engaged in the administration of the duty.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

No Par Value Shares

SIR, – Sir John Barlow's Bill to provide for the introduction of company shares of no par value was defeated on its second reading, which, in my view, is most unfortunate for our profession.

Unfortunately, the Bill was, in my view, and in the view of many others, extremely badly drawn, but that does not itself detract from the principle which has been put forward.

Can one ask that an important measure of this nature should receive the consideration of and possibly the support of the Institute and that the Institute draft a suitable Bill and seek support for it in the House?

There is no doubt of the desirability of introducing the machinery of shares of no par value, but it is important also that the Bill and ultimate Act which render this possible should be sound in every way, and no doubt the members of the Council of our Institute can take the matter further than can I.

Yours faithfully,

Cheltenham. GORDON D. JOHNSTONE.

Road Hauliers' Compensation

SIR, – We refer to the letter in *The Accountant* of February 16th, 1952.

We were concerned in a case in which an individual haulier traded. In this case a sum of £700 per annum was debited in the accounts as proprietor's remuneration.

The Transport Arbitration Tribunal rejected the contention of the Road Haulage Executive that in arriving at the net annual profits a deduction should be made in respect of proprietor's remuneration. The Road Haulage Executive appealed to the First Division of the Court of Session and their appeal was unanimously rejected. Unless, therefore, that decision is reversed by the House of Lords, there is no ground for the Road Haulage Executive continuing to make such a deduction.

Yours faithfully,

Edinburgh, 1. GEDDES, BEATON & CO.

Taxation of the Nationalized Industries

SIR, – In *The Accountant* of January 26th, 1952, at page 88, we read of the negotiation of tax liabilities on behalf of the National Coal Board. This must be an entirely futile process, as there seems no reason why a nationalized industry should be assessed. It would be interesting to hear of other similar examples of misplaced skill, in order that suitable remedies may be applied.

Yours faithfully,

Edinburgh, 3. CHARLES A. SCOTT.

Receiver and Preferential Creditors

SIR, – With reference to the letter by 'Receiver' which appeared in your issue of March 1st, Section 94 of the Companies Act, 1948, clearly states that where a receiver is appointed at a time when the company is not in course of being wound up, preferential payments are to be made in priority to any claim for principal or interest in respect of the debentures. It is therefore the receiver's responsibility to agree and make payment to the preferential creditors in full or in proportion according to the amount available. The receiver's fee is limited under Section 109 of the Law of Property Act, 1925, to a commission at such a rate not exceeding 5 per cent on the gross amount of all money received as is specified in his appointment, and if no rate is so specified then at the rate of 5 per cent, or such other rate as the Court thinks fit to allow on application.

There is no necessity to consult the preferential creditors.

Yours faithfully,

Hull. S. D. MOORE.

Companies Act, 1948: Variation of Shareholders' Rights: Minutes of Meeting

SIR, – I have been greatly interested in the correspondence regarding the writing up and signature of minutes of a meeting of preference shareholders held for the purpose of varying the rights of such shareholders.

With respect, I think Mr G. H. Grainger (March 1st issue) has misunderstood the effect of Section 145 (1) of the 1948 Act. That section does not confine itself to the entering of minutes only in respect of 'general meetings of the company' and meetings of directors and managers. The section refers to 'general meetings' (omitting the words 'of the company') and in my opinion this description includes general meetings of classes of shareholders.

As a practical example, if a company applies to the Court to confirm a reduction of capital, which involves the variation of the rights of a class of shareholders, the Court will direct a separate general meeting of such class of shareholders to be held and will require the minutes of the meeting to be put in evidence, and I can assure those interested that the Court will not accept the minutes unless they are signed by the chairman of the meeting. It may be argued that this is a special case as the meeting is ordered by the Court, but nevertheless it is a 'general meeting of the class'.

I submit that the correct procedure is for the minutes to be written up so soon after the meeting has been held as possible, and for the secretary to get them signed by the chairman of the meeting immediately, as it is not necessary to have them confirmed at a further meeting of the shareholders. Further, it must not be overlooked that a variation of rights under Section 72 may be opposed in Court and in such event it is not impossible for the Court to require the minutes to be produced in evidence, which, if unsigned, would not be accepted.

Yours faithfully,

Upminster, Essex. J. W. PRYKE.

Capital Allowances on Printing Type

SIR, – Clients of mine formed, on July 1st, 1949, a small company for the purpose of carrying out general printing. An amount of £150 was incurred by them during the first year to June 30th, 1950, in respect of printing type and an attempt was made by me to obtain initial and annual allowances in connexion therewith for the years 1949–50 to 1951–52. The Inspector of Taxes, however, contended that printing type was not plant, and inferred that official instructions had been given to this effect. As a result, he proposes to treat this item on a renewals basis.

The views of readers would be appreciated regarding their recent experience on this point, or as to whether there is any legal foundations for the Inspector of Taxes' contention.

Yours faithfully,

NAPOLEON.

The Use of Figures

SIR, – No one could ever accuse my friend Mr Clayton of being a confirmed traditionalist, so that one approaches his defence of historical-cost accounting with hopes of solid arguments to consider. His lecture entitled 'Are the figures any use?' (reproduced in your issue of March 1st) leaves one baffled, not because of weighty blows against the idea of adjusting for the fall in the value of money, but by reason of the remarkable number of red herrings.

He mentions, for example, the difference between the Courtaulds and the I.C.I. treatment of the incidence of rising prices. The incidence on the profit and loss balance is, however, the same, which is what matters most. It may be that both companies have achieved this major objective in a manner differing from that which they would have chosen if 'replacement cost accounting' had been generally accepted. They have each made concessions to existing traditional ideas, and it is not surprising that they have found differing ways of circumventing these. I do not think either company has reached an ideal solution, but they have both moved substantially nearer truth. Mr Clayton must really know better than to regard the solutions as 'diametrically opposite'.

Secondly, in the paragraph beginning with the telling comment that 'Replacement cost accounting is erected on a simple error of fact', he goes on to say that a debenture-holder would be insane to expect payment of interest in currency of purchasing power equivalent to the original loan, and that such accounting ignores the fact that inflation benefits debtors. Quite obviously it benefits them. If a concern is making an annual operating profit of £10,000 and pays £5,000 of this in loan interest, £5,000 is left for the proprietors. If all prices double and the volume of business is constant, then with 'replacement cost accounting', operating profits are doubled at £20,000, but net profits are trebled at £15,000. The trouble is that historical cost accounting magnifies this because not all costs are shown as doubled; net profits may thus easily appear as being £25,000.

Taxation apart, the gain to the equity holder is a very real one. The way a business is financed as between loan, preference and ordinary capital is, however, not a matter which should affect the tax yield from the business. If investors are prepared to put up money on fixed interest or dividend terms, that is something between themselves and the business. With inflation, the equity holders may well profit from this; but it is ludicrous to suggest that a system of accounting is right merely because it magnifies such benefit, and hence results in additional tax liability partly or wholly offsetting such gain. Further, the extent of profit distortion varies enormously from one concern to another. The extent of finance by preference capital also varies enormously (down to nil incidentally). A view of profit which involves offsetting two factors which are not only wholly unconnected, but also widely variable, is surely not generally acceptable amongst accountants.

Mr Clayton really gives himself away by his comments about the merely 'conventional' basis of profit (page 216). One can perhaps only approach truth in accounting without ever quite reaching it. But conventions are valid only if they stand up to the test of providing working practical rules for approximating to the theoretical ideal. If Mr Clayton refuses to consider whether his rules stand the test of examination, he is making it difficult to agree with him – and incidentally leaving us free to adopt such different rules as we each feel we prefer. Having placed 'conventions' as of paramount significance, Mr Clayton concludes with a remarkable contradiction. He says that any plea for examination of the fairness of the sharing of the tax burden

> 'must be examined on its merits and not submerged in a controversy regarding accounting conventions',

(page 218). First 'truth' is decried, there are only 'suitable' conventions. Next, these are to be discarded in discussing profit measurement, and we are to examine 'pleas' on their merits. If he really works so far as this from fundamental principles, the answer to Mr Clayton's questioning title would seem to be, 'No, not if they are Mr Clayton's'.

Yours faithfully,

London, N13. HARRY NORRIS.

Profits Tax

SIR, – With reference to the query raised by your correspondent 'Jaybee' (March 1st issue) concerning whether directors' remuneration should be apportioned on a time basis or whether regard should be had to the actual amounts paid period for period, it would appear that the Inspector has some statutory authority for his contention that the time basis should be used.

Section 37, Finance Act, 1947, deals with the apportionments to be made to arrive at gross relevant distributions for a period and in particular subsection (2) reads:

> 'Any apportionment under this section shall be made in proportion to the number of months or fractions of months in the respective periods.'

From that there would appear to be no escape, although the effect is that all companies which make up their annual accounts to a year ending other than at December 31st are deprived of the benefits of the increased amounts allowed for directors' remuneration until the year ending in 1952, although the concession was made as from January 1st, 1951.

Yours faithfully,

Sheffield. D. L. FLETCHER, A.S.A.A.

Stock Cost Determination

SIR, – I have read with great interest your article on the above subject in *The Accountant* dated March 8th, 1952, and would like to make the following comments:

1. I do not think that the base stock method should be related solely to the *value* of the original stock.

2. It should be related to the *quantity*. The original quantity being priced at the original value. Any excess quantity should be valued at the lower of cost or market price. This idea is probably an adaptation of the base stock and LIFO methods.

3. If base stock (quantity) at a year-end falls below the previous year's figure, then this would have to form a new base quantity for future years.

4. If the market price of the stock falls below the original base stock (price) then this price should be used for the current year's accounts and for future years.

5. Such a system for valuing stock in the final accounts, provided it was consistently used, has the following advantages:

(*a*) It shows the true profit which has been *realized* in the year.

(*b*) The original investment of capital of the company in stock remains constant and inflation of stock values is avoided.

(*c*) Such system could, in my opinion, be successfully maintained against the tax authorities as being 'good commercial practice'.

(*d*) The system could be introduced at any time but, once adopted, must be used consistently.

It appears that this whole matter of stock values is receiving considerable attention at the present time, and it is hoped that from discussion a reasonable and practical accounting treatment will be formulated.

Yours faithfully,

STOCKTAKER.

Property Investment Company: Bad Debt

SIR, – A property investment company, also managing properties on behalf of other companies, assessed under Schedule A and submitting management expenses claims, now finds itself with a bad debt as the result of the failure of one of its clients.

The deficit is not due in fact to loans, but has accumulated as a result of the excess of outgoings over income which the investment company has continued to pay over a long period.

As the loss to the investment company might not be deemed to have been incurred wholly and exclusively for the purposes of its trade, and lending is not a normal activity of the company, could the Inland Revenue advance any reasons for refusing to allow a bad debt claim? The company maintain that they had hoped that the income of their clients would improve, and thereby they would be able to recoup themselves for the earlier deficit.

Unfortunately, bad conditions prevailed and, in fact, the company's loss increased as time went on.

Should a refusal to allow a bad debt claim be maintained, would the company then be justified in submitting a claim in respect of the commission charged by it but never received as a result of the bad debt incurred?

Yours faithfully,

S. HELLER.

Worcester Park, Surrey.

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Hemsley, Bernard Leslie, with Sherrott & Co, 51 Queen's Road, Brighton.
Henley, Adrian John, with *Lever, Honeyman & Co, 9 Basinghall Street, London, EC2.

Hennell, Bernard MacDonald, M.A., with Woolger, Hennell, Scott-Mitchell & Co, Moorfields Chambers, 165–167 Moorgate, London, EC2.
Higinbotham, John Alfred, with *Baker, Todman & Co, Canada House, Norfolk Street, Strand, London, WC2.
Hindle, David Ross, with Franklin, Wild & Co, Orient House, 42–45 New Broad Street, London, EC2.
Hindle, Thomas William, with Smailes, Holtby & Gray, 99 Princes Avenue, Hull.
Hislop, John Archibald, with A. C. Palmer & Co, Norfolk House, 7 Laurence Pountney Hill, Cannon Street, London, EC4.
Hitchins, Denis Francis, 5 Lovelace Road, East Barnet, Hertfordshire.
Hockley, Peter Frederick, with Jackson, Pixley & Co, Kent House, Telegraph Street, London, EC2.
Hodge, Margaret Ada Tomsett, B.A., with Miss C. M. Collings, 17 Northgate End, Bishop's Stortford.
Hodgson, Peter Robinson, c/o Townsend, Watson & Stone, 4 The Broadway, Crouch End, London, N8.
Hofmann, Karl Heinz, with Graham, Proom & Smith, 2 Saville Place, Newcastle upon Tyne, 1.
Holford, John Anthony, with de Paula, Turner, Lake & Co, 17 Coleman Street, London, EC2.
Holland, John Clifford, with Bourner, Bullock & Co, 17 Albion Street, Hanley, Staffs.
Hopton, John Gilbert Walter, B.COM., with Impey, Cudworth & Co, 5 Lower Temple Street, Birmingham, 2.
Hornung, Stephen Peter, with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Horsfield, George Herbert Nicholas, with Andw. W. Barr & Co, 202 Bishopsgate, London, EC2.
Horsley, Michael Alan, with Howard Smith, Thompson & Co, 11 Waterloo Street, Birmingham, 2.
Hough, John Allen, with *Deloitte, Plender, Griffiths & Co, Royal Mail House, 76 Cross Street, Manchester, 2.
How, Alan Thomas, with Clarke, How & Co, Radnor House, 93 Regent Street, London, W1.
Howard, Donald Louis, with *Hubbart, Durose & Pain, 9 Low Pavement, Nottingham.
Hubbard, Thomas Francis, B.A., with Josolyne, Miles & Co, 28 King Street, London, EC2.
Hunt, Ralph James, with Cook, Sutton & Co, 64–65 St Mary's Butts, Reading.
Jackson, Peter Paul, with *Smallfield, Rawlins & Co, Candlewick House, 116–126 Cannon Street, London, EC4.
Jenkins, Ivor Dewi, with Palmer, Haines, Spence & Co, Guildhall Annexe, 23 King Street, Cheapside, London, EC2.
Jennings, Adrian Rodney, with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Johnson, Edward George Faithful, with Derbyshire & Co, 73–78 High Holborn, London, WC1.
Johnson, William Raymond, with Humphreys, Dearden & Co, 15 Great Underbank, Stockport.
Jones, Eric Thomas, with Duncan, Watson & Short, B22 The Temple, Dale Street, Liverpool, 2.
Jones, Frederick, with *Monkhouse, Stoneham & Co, 695 Salisbury House, London Wall, London, EC2.
Keily, John Martin, with Forrester, Boyd & Co, 26 South St Mary's Gate, Grimsby.
Kemp, Roderick Charles, with *Layton-Bennett, Billingham & Co, 23 Blomfield Street, London, EC2.
Kendal, Martin, with Walter Pomfret & Willmoth, Telegraph Chambers, 89 Fishergate, Preston.
Kent, Charles Frederick, with C. D. Bromhead & Co, Coryton Villa, Trematon Terrace, Plymouth.
Kerr, Robert Alan, with A. Owen John & Co, Mardy Chambers, 6 Wind Street, Swansea.
Keyworth, Raymond Dennis, with *Francis S. Clark & Co, 67A Queen Street, Newton Abbot.
Kiely, Peter George Stewart, with Wells & Partners, Bank House, 2 York Street, Twickenham.
Kilby, Brian, with C. K. Jordan, Lloyds Bank Buildings, 53 King Street, Manchester, 2.
Lacy Scott, David Geffrey, B.A., with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Ladbrook, Charles Bertram Valentine, with *H. G. Ellis, Kennewell & Co, Imperial Building, Victoria Street, Nottingham.
Ladd, Kenneth Peter, with Hartley, Keen & Co, Bank Chambers, 77–79 High Street, Southend-on-Sea.
Lambert, William, with Thornton & Co, 54 Castle Street, Liverpool, 2.
Leach, Ronald Charles, with Rawlings & Wilkinson, 55 John Street, Sunderland.
Leff, Norman Nathan, with *Diamond, Peat & Co, 7 Great Queen Street, Kingsway, London, WC2.
Leff, Robert Woolf, with *Diamond, Peat & Co, 7 Great Queen Street, Kingsway, London, WC2.
Lennon, John William, with *Deloitte, Plender, Griffiths & Co 5 London Wall Buildings, London, EC2.
Lescher, Charles Duncan, with Josolyne, Miles & Co, 28 King Street, Cheapside, London, EC2.
Lewin, Dennis Morley, with Wykes & Co, 24 Friar Lane, Leicester.
Lewis, Frederick Arthur, with *Layton-Bennett, Billingham & Co, 23 Blomfield Street, London, EC2.
Lipton, Sidney, with Jackson, Pixley & Co, Kent House, Telegraph Street, London, EC2.
Little, William, with Richd. Ormond, Son & Dunn, 41 Grainger Street, Newcastle upon Tyne, 1.
Litton, Edward George, with J. Dix Lewis, Caesar, Duncan & Co, 112–114 Cannon Street, London, EC4.
Lloyd-Owen, Peter, with *Hill, Vellacott & Co, Law Courts Chambers, 33 & 34 Chancery Lane, London, WC2.
Longland, Peter William, 7 Ribchester Road, Lytham St Annes.
Lowry, Falconer David Malbon, with Harmood Banner, Lewis & Mounsey, 24 North John Street, Liverpool, 2.
Lynes, Tony Alfred, with Turquand, Youngs & Co, 19 Coleman Street, London, EC2.

McKelvey, Donald Arthur, 141 Union Street, Ashton under Lyne.
Macken, Terence, with Vasey, Oliver & Co, 3 Westoe Village, South Shields.
McLennan, Walter Derek, with Saffery, Son & Co, 200 Gresham House, Old Broad Street, London, EC2.
McNulty, Michael John, with Russell & Bishop, St Martin's Chambers, 8 New Street, Leicester.
Mairs, Gordon Bernard, with Bradfield, Chapman & Co, Friary Chambers, Friar Lane, Nottingham.
Marke, Terence Michael Levelis, with Black, Geoghegan & Till, 67 Watling Street, London, EC4.
Martin, Frank Tyson, with R. F. Frazer & Co, 265–275 Martins Bank Building, Water Street, Liverpool, 2.
Martin, John Russell Calthrop, with *Cooper Brothers & Co, 3 Rumford Street, Liverpool, 2.
Mason, Alvin Alastair, with Holmes, Widlake & Gibson, 35 Bedford Row, London, WC1.
Massey, Eric Hilton, with *Harry L. Price & Co, 47 Mosley Street, Manchester, 2.
Masters, Alfred Samuel, with A. G. Sayers, Seaton & Butterworth, 62 Brook Street, London, W1.
Mathias, Noel Joseph, 37 Wood Lane, Highgate, London, N6.
Mellows, Peter James, with *Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
Miller, John Ramon, with Ashworth, Mosley & Co, Midland Bank Buildings, Spring Gardens, Manchester, 2
Miller, William Gordon, with A. W. Price, Rose & Smith, 23 Grey Street, Newcastle upon Tyne, 1.
Minards, Bruce Elgin, with Dutton & Co, 6 Spencer Parade, Northampton.
Mobbs, Graham Eric, with A. C. Palmer & Co, Regent House, 45 Sheep Street, Northampton.
Monkhouse, John Federick, with Spofforth & Prince, Clifford's Inn, Fleet Street, London, EC4.

Monro, Walter Stewart Gordon, with Greenslade & Co, Dashwood House, Old Broad Street, London, EC2.
Moore, Arthur Derek, with J. P. Moore, 25 Union Street, Bury.
Moore, George William Louis, with Lonsdale & Marsh, 26 Exchange Street East, Liverpool, 2.
Morgan, Douglas James William, with Vickers & Winder, 109 Gloucester Place, London, W1.
Morgan-Grenville, John Richard Bine, with Herbert Hill & Co, 552–555 Salisbury House, London Wall, London, EC2.
Morpeth, Douglas Spottiswoode, B.COM., with E. C. Brown & Batts, Danes Inn House, 265 Strand, London, WC2.
Mullarkey, Terence Sydney, with Tribe, Clarke, Darton & Pollock, 62 High Street, Rochester.
Mullins, Michael Eric, with *Elles, Reeve & Co, 4 Bucklersbury, London, EC4.
Murray, John Robertson, with *Allan, Charlesworth & Co, 17 St Helen's Place, Bishopsgate, London, EC3.

Naganathan, Maruthappah, with C. F. Bird & Co, 46 Bedford Row, London, WC1.
Nash, Norman Charles Russell, 23 Oakwood Court, Kensington, London, W14.
Newman, Harold Eric, with Fletcher, Fletcher & Layton, Crown Chambers, Bridge Street, Salisbury, Wilts.
Newman, Philip Samuel, with Ogden, Hibberd Bull & Langton, Audrey House, Ely Place, London, EC1.
Nichols, John Derek Francklyn, with Kemp, Chatteris & Co, St Swithin's House, 37 Walbrook, London, EC4.
Nye, Ernest Albert William, with Josolyne, Miles & Co, 28 King Street, Cheapside, London, EC2.

Ogden, William Robert Campbell, with Ogden, Hibberd Bull & Langton, Audrey House, Ely Place, London, EC1.
Oliver, Frank, with *Coxon, Bannister & Gothard, 30 Union Street, Burton-on-Trent.
Ollis, Norman Edgar, The Red Lion Hotel, Heath Road, Twickenham.

Pain, Charles Andrew Stephen, with Josolyne, Miles & Co, 28 King Street, Cheapside, London, EC2.
Palmer, Peter Harwood, with *Prior & Palmer, General Buildings, Bridlesmith Gate, Nottingham.
Palmer, Victor Douglas, with Webb & Son, 49 Queen Victoria Street, London, EC4.
Panter, Kenneth Cyril Stanley, with Carter, Son & White, Craven House, 16 Northumberland Avenue, London, WC2.
Parker, Dennis, with Fairbairn, Wingfield & Wykes, 67 Watling Street, London, EC4.
Parker, Ronald Ernest Alexander, with H. W. Vallance Lodge & Co, 746 High Road, Tottenham, London, N17.
Parlett, Stanley Charles, with Saffery, Sons & Co, 200 Gresham House, Old Broad Street, London, EC2.
Parslow, Frederick Charles, with Godwin & Taylor, Portland House, 73 Basinghall Street, London, EC2.
Partridge, Izett Helen, with Eric Taylor & Co, 23 Russell Street, Reading.
Patel, Rambhai Marghabhai, 1–2 Queens Gardens, London, W2.
Pattison, Guy Cameron, 31 Oakhurst Grove, Dulwich, London, SE22.
Pedlow, Eric William, 23 Newcombe Park, Mill Hill, London, NW7.
Pedlow, Malcolm Howard, with W. A. Henderson & Co, 9 Clement's Lane, London, EC4.
Pennock, Edward John, with Luckin & Sheldrake, Waterloo Chambers, Chelmsford.
Percival, Arthur Thomas, B.SC.(ECON.), with Blackburns, Robson, Coates & Co, 59 New Cavendish Street, London, W1.
Peterman, Leslie, with Ridley, Heslop & Sainer, 10 New Court, Lincoln's Inn, London, WC2.
Phillipson, John James, with Crombie, Lacon & Stevens, 34 Waterloo Road, Wolverhampton.
Pickett, Michael Frederick, with Gibbons & Mitchell, 8 Wellington Square, Hastings.
Pike, Barrie Cobden, with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Pitts, James Michael, with Thomas & Pitts, Kings Court, 115–117 Colmore Row, Birmingham, 3.
Pollard, Peter Robert, with Andw. W. Barr & Co, Abbott's Chambers, 202 Bishopsgate, London, EC2.
Pont, John, with Catchpole & Lester, 4 Dudley Road, Tunbridge Wells.
Potts, John Robinson, with Sharp, Parsons & Co, 120 Colmore Row, Birmingham, 3.
Pratt, George Henry, with J. F. W. Robinson (J. F. W. Robinson & Co), Bank Chambers, Murray Road, Workington, Cumberland.
Price, Rupert Milner, c/o Frank A. Cooper & Co, 21 Copthall Avenue, London, EC2.
Price, William Charles, with *S. T. Cowcher & Son, 1 Whitfield Street, Gloucester.

Rankin, William, with *Pruddah, Eilbeck & Co, 41 North John Street, Liverpool, 2.
Reay, William Robert, with Joseph Miller & Co, 28 Mosley Street, Newcastle upon Tyne, 1.
Redfern, John Robert, Moss Grove Nurseries, Ashton-under-Lyne.
Reed, Bryan Clive, with Blakemore, Elgar & Co, 124 Chancery Lane, London, WC2.
Reid, David, with Gray, Stainforth & Co, Monument Buildings, 11–15 Monument Street, London, EC3.
Rendell, Peter Fairfax, M.A., with Curtis, Jenkins, Cornwell & Co, 44 Corn Street, Bristol, 1.
Resting, Leslie Olaf, c/o Thomson McLintock & Co, 33 King William Street, London, EC4.
Rhodes, Edgar Holcroft, B.A.(COM.), with Ashworth, Mosley & Co, Midland Bank Buildings, Spring Gardens, Manchester, 2.
Richer, Charles Martin, with *Friend-James, Sinclair & Yarnell, 150 North Street, Brighton, 1.
Roberts, Denis Brining, with *Chalmers, Wade & Co, 5 Fenwick Street, Liverpool, 2.
Robertson, Thomas, with Watson & Pickering, 3 Saville Chambers, North Street, Newcastle upon Tyne, 1.
Robinson, Peter Richard, with Ogden, Hibberd Bull & Langton, Audrey House, Ely Place, London, EC1.
Roffe, Ronald John Cawley, with Roffe, Swayne & Co, 13 High Street, Godalming.
Roper, David Charles, with Howard Smith, Thompson & Co, Bank Chambers, 11 Waterloo Street, Birmingham, 2.
Ross, Hector Reynolds, with *Sprague, Nicholson, Morgan & Co, 68–72 Horseferry Road, Westminster, London, SW1.
Rowlands, Herbert, with Gordon Thomas & Pickard, 2 Church Street, Cardiff.
Rowley, Gordon William, with Agar, Bates Neal & Co, 106 Edmund Street, Birmingham, 3.
Rudland, David Marston, 44 Greenhill Road, Moseley, Birmingham, 13.
Rumbles, George, with Board, Hill & Whittow, 62 Sidney Street, Cambridge.
Russell, Peter Powell, with *Cole, Dickin & Hills, 18 Essex Street, Strand, London, WC2.

Sadler, James Derek, with Morris Gregory & Co, 37 Jordangate, Macclesfield.
Sadler, Thomas Malcolm, with Richd. Ormond, Son & Dunn, Union Chambers, 41 Grainger Street, Newcastle upon Tyne, 1.
Sassoon, Isaac, with S. Brief (S. Brief & Co), 104 High Holborn, London, WC1.
Saunders, Peter John, with Crew, Turnbull & Co, 1 George Street West, Luton.
Sawtell, Ian David Woolley, with *Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.
Say, Peter Robin, with Fredk. B. Smart & Co, 22 Queen Street, Cannon Street, London, EC4.
Scanlon, Michael Raymond, with Nicholson, Beecroft & Co, 5 Cheapside, London, EC2.
Schiff, Stanley Aubrey, M.A., with *Barton, Mayhew & Co, Alderman's House, Bishopsgate, London, EC2.

Scott, Robert Clyde Norton, with Buckley, Hall, Devin & Co, 82 King William Street, London, EC4.
Sedcole, Cecil Frazer, with F. Sedcole (Frederick Sedcole & Co), 4 Great Winchester Street, London, EC2.
Selier, John Boudewyn, B.COM., with *Goodier, Smith & Co, 92 New Cavendish Street, London, W1.
Selwyn, Stanley Clifford, 73 Lampard Grove, Stamford Hill, London, N16.
Shackleford, Geoffrey Charles Francis, with Leach, Bright & Couch, 12 The Green, Richmond, Surrey.
Shaddock, Richard Frederick, with N. V. Redfern, 57 Balmoral Road, Gillingham.
Shaw, George Eric, with W. H. Shaw & Sons, Market Place, Dewsbury.
Shedd, John Wilfred, with *E. S. Polkinghorne & Son, 32 Rainsford Road, Chelmsford.
Sheeter, Laurence, with M. Fenton (M. Fenton & Co), Clarendon House, 11 & 12 Clifford Street, London, W1.
Shelley, Ronald Charles, with Cedar & Co, 65 Bishopsgate, London, EC2.
Shepherd, Ronald John, with *Carpenter, Arnold & Turner, Regent House, Princes Place, North Street, Brighton, 1.
Shroff, Manoranjan Ratilal, B.COM., with M. Striker & Co, 139 Tottenham Court Road, London, W1.
Simmons, Lawrence Desmond, with B. Davies & Co, 59 Sloane Street, London, SW1.
Simnett, Peter Ralph, with *Martin, Farlow & Co, The Kingsley Hotel, Bloomsbury Way, London, WC1.
Skeffington, John Christopher, with *Hogg, Bullimore & Co, 91 Park Street, Park Lane, London, W1.
Smale, Dennis Harold, with Edward Thomas Peirson & Sons, 13 Eaton Road, Coventry.
Small, Donald Hopton, with Tribe, Clarke, Painter, Darton & Co, 43-44 Broad Street Avenue, Blomfield Street, London, EC2.
Smith, Anthony Thomas, with L. H. Fink, 99 Baker Street, London, W1.
Smith, David Revell, with W. Smith & Co, 123 London Road, N, Lowestoft.
Smith, Derek Leslie, with Lightfoot & Smith, Bank Chambers, Old Market Square, Nottingham.
Smith, James Desmond, with Joshua Wortley & Sons, 8 Paradise Square (P.O. Box 42), Sheffield, 1.
Smith, John Addison, with Albert Bell & Allan, St Nicholas Chambers, Amen Corner, Newcastle upon Tyne, 1.
Smith, Joseph Henry, with C. H. Arkley (C. H. Arkley & Co), Bank Chambers, 33 Bedford Street, North Shields.
Smith, Julian Esmond, with *Wright, Stevens & Lloyd, Norfolk House, Laurence Pountney Hill, London, EC4.
Smith, Kenneth John, with J. Dix Lewis, Caesar, Duncan & Co, 112-114 Cannon Street, London, EC4.
Smith, Reginald, with *Walker, Fullerton, Hartley & Co, 10 Clarendon Road, Leeds, 2.
Spencer, Arthur Matthew, with E. Macartney (Macartney & Co), Heath Chambers, 13 Blackett Street, Newcastle upon Tyne, 1.
Spooner, Roy, with Stowell & Bayley, 57 King Street, Manchester, 2.
Stanton, Walter, with Febeson & Arbeid, 63/65 Piccadilly, London, W1.
Steed, Michael Northam, with A. C. Mole & Sons, Stafford House, Billetfield, Taunton.
Steel, David Roy Burnett, B.A.(COM.), with Ham, Jackson & Brown, Albion Chambers, Small Street, Bristol, 1.
Stevens, John Oliver, with F. E. Hawkes & Co, 27 Dunstable Road, Luton.
Stewart, Denis, with W. A. Browne & Co, 307 Winchester House, Old Broad Street, London, EC2.
Stone, Hubert, c/o Clifford Hill, MacKelden & Co, 10 Portland Place East, Tavistock Road, Plymouth.
Storrey, Peter Arthur, with *Hubbart, Durose & Pain, 9 Low Pavement, Nottingham.
Straughan, Jonathan Nicholson, with Robert Miller & Co, Central Buildings, Front Street, Chester-le-Street, Co. Durham.
Strivens, David John, with *Fawcett, Brown & Pinniger, 19 Catherine Street, Salisbury, Wilts.
Sykes, Gordon Barnes, with H. V. Wood & Co, Bank Chambers, Market Street, Huddersfield.
Taylor Bernard Mervyn, with *Spain Brothers, Dalling & Co, 1 Pavilion Buildings, Brighton.
Taylor, Ivor, with Percy & Gittins, Charlton House, Priory Street, Dudley.
Taylor, John Maurice, with Wykes & Co, 24 Friar Lane, Leicester.
Teakle, Bernard John, with Whitehill, Marsh, Jackson & Co, Kent House, Telegraph Street, Moorgate, London, EC2.
Templeman, Charles London, 58B Pasture Street, Grimsby.
Teraoka, Tokuji Wilfrid Michael, B.COM., 20 Belsize Park Gardens, Hampstead, London, NW3.
Terrett, George Alexander, with Hubert Leicester & Co, 15 Foregate Street, Worcester.
Terry, Geoffrey George, with S. D. Hull, Borough Chambers, St Peter's Gate, Stockport.
Thomas, Malcolm Glover, with *Peat, Marwick, Mitchell & Co, Dowlais Chambers, West Bute Street, Cardiff.
Thomas, Paul, with Pearce, Clayton & Maunder, Old School Buildings, South Street, Dorchester.
Thompson, Colin Paling, with Wykes & Co, 24 Friar Lane, Leicester.
Thursfield, William John, with H. H. Sherwood & Co, 38 Great Charles Street, Birmingham, 3.
Thwaites, William Alexander, with Andw. W. Barr & Co, Abbott's Chambers, 202 Bishopsgate, London, EC2.
Timmins, Norman Edward, c/o Rivington, Garner & Co, 4 Loseby Lane, Leicester.
Tucker, Richard Henry Trimnel, with Hudson Smith, Briggs & Co, Exchange Chambers, Corn Street, Bristol, 1.
Urwin, Peter Muggeridge, with Brough, Postlethwaite & Co, Midland Bank Chambers, High Street, Doncaster.
Wadie, Hugh, with West, Wake, Price & Co, 6 Broad Street Place, London, EC2.
Wagstaffe, Ivan, 76 Newnham Avenue, Bedford.
Walker, Anthony, with J. E. Wootton (John Wootton & Co), Birch House, Birch Street, Wolverhampton.
Walker, Derek Nicholas, with *Brown, Fleming & Murray, 4B Frederick's Place, Old Jewry, London, EC2.
Walker, Peter Vallack, with *Spain Bros. Dalling & Co, 1 Pavilion Buildings, Brighton, 1.
Walker, Thomas Charles, B.COM., with *Barton, Mayhew & Co, Alderman's House, Bishopsgate, London, EC2.
Wallace, Ronald, with James Watson & Son, Lloyds Bank Chambers, Lowther Street, Carlisle.
Walsh, Stanley Thomas, with R. Dixon (Dixon & Co), Midland Bank Chambers, North Street, Taunton.
Ward, Noel Eric Moore, 17 Broomhill Road, Woodford Green, Essex.
Watts, Edgar, with Wykes & Co, 24 Friar Lane, Leicester.
Weaks, John Michael, with Jones, Robathan, Thompson & Co, 24 King Street, Carmarthen.
Webster, Barry William Brady, 39 Keresford Hall Road, Barnsley.
Webster, Cameron, with *Jones, Crewdson & Youatt, 7 Norfolk Street, Manchester, 2.
Webster, George Donald, with F. G. Lee, 5 East Street, Ilkeston
Weston, Walter Glynne, with McDavid & Thornton, 21 Joy Street, Barnstaple.
Whitaker, Alan Arthur, B.A., with Farrow, Bersey, Gain, Vincent & Co, 53 New Broad Street, London, EC2.
White, Grenville Claude Hazeldene, with *Portley & Lethbridge, Guildhall Chambers, High Street, Exeter.
White, Stephen Laurence, with Gale & Hutchinson, Royal Insurance Buildings, Bowlalley Lane, Hull.
Whiting, Antony John, with *Larking, Larking & Whiting, 6 High Street, March.
Wicker, Kenneth James Stanley, c/o Landau, Morley & Scott, Wilkin House, Staines Road, Feltham.
Wilkes, Richard Geoffrey, with Bolton, Bullivant & Co, 6 Friar Lane, Leicester.

Wilkinson, Peter William, M.C., with Wilkinson & Mellor, Leadenhall Buildings, 1 Leadenhall Street, London, EC3.
Willcock, John, with Royce, Peeling, Green & Co, 18 Lloyd Street, Manchester, 2.
Williams, Eryl, with Allwood & Jackson, 26 Newgate Street, Chester.
Williams, John Hubert, with *Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.
Wilson, Anthony, with John Gordon, Walton & Co, 7 South Parade, Leeds, 1.
Wilson, Arthur Leonard, with Lucas, Allen & Co, 1 Lansdowne Place, Warwick Road, Coventry.
Winchcombe, Victor Matthew, with *Elles, Reeve & Co, 4 Bucklersbury, London, EC4.
Withers, Einar, with Lord, Foster & Co, Rex House, 38 King William Street, London, EC4.
Wood, Bertie Dennis, with A. F. Christlieb (A. F. Christlieb & Co), 81 Cannon Street, London, EC4.
Wood, David James Cecil, with Edward Thomas Peirson & Son, Albemarle House, 28B Albemarle Street, Piccadilly, London, W1.
Wood, Donald, with Morris, Gregory & Co, 3 York Street, Manchester, 2.
Wood, Malcolm William, with Folkes & Campbell, 15 & 17 Church Street, Stourbridge.
Wood, Peter John, with Burgis & Bullock, 11 & 13 Waterloo Place, Leamington Spa.
Woolfenden, Edward, with *Chalmers, Wade & Co, 5 Fenwick Street, Liverpool, 2.
Wright, Robert George, with Edwin Collier & Co, 3 York Street, Manchester, 2.
Wynne, Denzil Percival, with Grace, Darbyshire & Todd, 19 Whiteladies' Road, Bristol, 8.
Yates, Cyril, with Walton, Watts & Co, Chancery Chambers, 55 Brown Street, Manchester, 2.
Young, John Michael, with Larking & Larking, Orford Place, Norwich.

(Not in England or Wales)

Guha, Tarun Kumar, B.COM., 122/C Rash Behari Avenue, Calcutta, 29.
Khan, Yousuf Mohamad, B.COM., c/o I.C.I. (Pakistan) Ltd, Jamshed Katrak Chambers, Machi Miani, Karachi, Pakistan.
Purdy, John Martin, with Turquand Youngs & Co, 10 South Street, Valetta, Malta.

SHEFFIELD CHARTERED ACCOUNTANTS

JOINT ANNUAL DINNER

Members of the Sheffield and District Society of Chartered Accountants and of the Sheffield Chartered Accountants Students' Society held a joint annual dinner at *The Grand Hotel*, Sheffield, on Friday, March 14th, 1952. The President, Mr Wilfred B. Gowers, F.C.A., was in the chair, and the 198 members and guests who attended were received by Mr Gowers and Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among those present were Alderman T. W. Bridgland, J.P., Lord Mayor of Sheffield, Sir Alexander Dunbar, Kt., Mr G. M. Flather, The Master Cutler, Mr W. A. Lambert, President, Sheffield and District Incorporated Law Society, Mr Stanley Moffett, M.C., M.A., Director of Education, City of Sheffield; and

Messrs T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); W. S. Bishop (*Chairman, Sheffield Centre of the Institute of Bankers*); H. Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); F. Cave (*H.M. Principal Inspector of Taxes*); Dr A. W. Chapman, D.SC., F.R.I.C. (*Registrar, University of Sheffield*); Mr Herbert Crookes, F.C.I.S. (*President, Sheffield and District Branch of the Chartered Institute of Secretaries*); The Very Reverend J. Howard Cruse, M.A. (*Provost of Sheffield*).

His Honour Judge R. C. Essenhigh; Messrs F. K. Gardiner, J.P. (*Editor, 'The Sheffield Telegraph'*); W. C. Garrison, F.C.W.A. (*Past President, Sheffield Society of Cost and Works Accountants*); E. Gooseman (*Editor, 'The Star'*); K. G. M. Harding, B.A., J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); Alderman G. W. Heathcote, J.P. (*Mayor of Chesterfield*); Messrs John Heys, C.B.E. (*Town Clerk of Sheffield*); W. H. Higginbotham, F.S.A.A. (*President, Sheffield Chamber of Commerce and President, Incorporated Accountants Society of Sheffield*).

Messrs Philip Howe, LL.B. (*Clerk of the Peace*); Roland Jennings, M.P., F.C.A. (*Member of Parliament, Hallam Division*); M. Wheatley Jones, B.COM., F.C.A. (*President, Manchester Society of Chartered Accountants*); Councillor P. J. Kirkman, F.A.C.C.A. (*President, Sheffield and District Society of the Association of Certified and Corporate Accountants*); Messrs Alan S. MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants*); G. B. Robins, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); Councillor A. R. Shayler (*Mayor of Rotherham*); Mr R. Woodward, F.C.I.I., F.C.I.S., F.C.I.B. (*President, Insurance Institute of Sheffield*).

The toast of 'The City and Trades of Sheffield' was proposed by Sir Alexander Dunbar; responding, the Lord Mayor said that Sheffield acknowledged in no small measure the important role that members of the profession were playing in our daily life.

The Figure-smith

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by the Master Cutler, who said:

'I am an industrialist – first and last – and I think that we of the purely commercial departments are far too ready to take for granted the work of "the figure-smith", not to be confused with "figure forgit" or "expense account fittler". (Laughter.)

'The real chartered accountant is almost invaluable at the birth of a new company – true, he may be somewhat in the background, and I fear we do not appreciate to the full this professional and technical support.'

Through the good offices of chartered accountants, he continued:

'there are quite a lot more successful businesses in this country than there would have been without those services, and I can also think of a number of firms who have been picked up and put on their financial feet through your advice and guidance.' (Hear, hear.)

Problems of Fifty Years Ago and of Today

Replying to the toast, Mr. Boyce referred to the remarks of the chairman, Mr J. W. Best, F.C.A., at the annual dinner of the Sheffield Society held exactly fifty years ago[1]:

[1] Reported in *The Accountant*, May 3rd, 1902, at page 481.

'Speaking on the subject of the settlement of disputed points of practice he is reported as saying "the question of what were the divisible profits of a company was a problem which not even a lawyer could solve". And is not this a problem looming much in the public eye today?

'The problem today differs from that of fifty years ago in as much as the present-day difficulties arise from changes in the purchasing power of money – in other words, through inflation. In some quarters, both in the business world and in the accountancy profession, it is claimed that a new accountancy technique should be evolved which, stripped of its trimmings, means that there should be a departure from the principle of historical cost as the basis on which annual accounts are prepared.

'The incidence of the heavy burden of taxation is no doubt the primary reason for the desire for a change of basis. The Exchequer takes such a heavy toll of the profits of any business, and for the purposes of taxation the profits are computed on the basis of capital allowances being calculated on historical cost, that the proprietors are quite unable to retain sufficient profits to enable them to maintain the physical capacity of the business.

'The Council is deeply concerned about this matter and much time and thought has been spent on it from two angles.

'Firstly, there is the question of rising prices levels as it affects taxation and this aspect has been dealt with at great length in the Council's memorandum to the Royal Commission on Profits and Income.[1] Secondly, there is the bearing which the problem has on the recommendation on rising price levels in relation to accounts – Recommendation XII – which was issued in January 1949. In May 1951 a sub-committee was appointed to consider whether any further statement or recommendation should be made on the subject dealt with in Recommendation XII and it is expected that the report of that sub-committee, in the form approved by the Council, will be available shortly.'

Mr Boyce then commented on the present economic situation of the country, and concluded with an expression of the Council's interest in the training and education of articled clerks.

The toast of 'The Guests' was proposed by Mr E. M. Cameron, A.C.A., a member of the Students' Society; Mr Lambert and Mr Moffett replied.

Mr A. G. Smeeton, F.C.A., proposed the toast of 'The President'; in his response, Mr Gowers thanked Mr W. Raymond Jenkinson, A.C.A., Hon. Secretary of the Society, and Mr H. L. Watson, F.C.A., Hon. Secretary of the Society's Taxation and Financial Relations Committee, for their valuable help, and also Mr Percy E. Smith, F.C.A., Hon. Secretary of the Dinner Sub-Committee for his excellent work.

[1] Referred to at page 301 of this issue.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

Taxation and Research Committee

The sixty-third meeting of the Taxation and Research Committee was held at the Institute on Thursday, February 21st, 1952, at 2 p.m.

Present: Mr W. W. Fea (in the chair); Messrs T. Fleming Birch, R. P. Brown, J. B. Burnie, W. G. Campbell, P. F. Carpenter, F. Carruthers, J. Cartner, D. A. Clarke, J. Clayton, R. W. Cox, E. H. Davison, W. G. Densem, R. B. Dixon, S. Dixon, W. P. Elliott, O.B.E., E. S. Foden, F. M. Gilliat, G. G. G. Goult, S. C. Hand, E. A. Harris, N. B. Hart, O.B.E., T.D., K. Johnson, J. Latham, C.B.E., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., R. A. Marden, J. W. G. Mitchell, G. P. Morgan-Jones, H. Norris, R. J. Ogle, A. P. Ravenhill, P. M. Rees, M.C., C. N. Storey, H. F. Strachan, A. G. Thomas, W. F. Tidswell, C. P. Turner and R. Walton, with an Assistant Secretary of the Institute and Mr K. H. Saunderson, Assistant to the Taxation and Research Committee.

Standing Sub-Committees

Reports, as under, were received and discussed:

- Cost Accounting Sub-Committee – Mr Davison.
- General Advisory Sub-Committee – Mr Fleming Birch.
- Taxation Sub-Committee (including report that the drafting sub-committee in connexion with the Royal Commission on the Taxation of Profits and Income had completed its work and a draft of the complete Part B memorandum had been settled by the Parliamentary and Law Committee for consideration by the Council) – Mr Gilliat.

The meeting agreed to place on record its great appreciation of the enormous amount of work undertaken by the drafting sub-committee in connexion with the preparation of evidence for the Royal Commission.

Ad Hoc Sub-Committees

The chairman of a special sub-committee reported progress and a further special sub-committee was appointed.

Next Meeting

The next meeting of the committee was fixed for Thursday, April 17th, 1952, at 2 p.m.

The Chartered Accountants' Benevolent Association

The annual meeting of the board of governors of The Chartered Accountants' Benevolent Association will be held at The Institute of Chartered Accountants, Moorgate Place, London, EC2, at 3.15 p.m. on Thursday, March 27th.

Professional Note

Mr E. W. Cornwell, F.C.A., has been nominated as Sheriff of Bristol for the ensuing year.

Personal

Messrs Fawcett, Brown & Pinniger, Chartered Accountants, of 19 Catherine Street, Salisbury, announce that they have opened an office at 23 Bell Street, Shaftesbury.

Messrs Barron Bass & Co, Chartered Accountants, of 2 Clement's Inn, Strand, London, WC2, announce that as from Monday, March 24th, 1952, their address will be Kings Chambers, 29–31 Portugal Street, London, WC2. Telephone: Chancery 5891–2.

In Parliament

ROYAL COMMISSION ON TAXATION: CHAIRMANSHIP

MR EMRYS HUGHES asked the Prime Minister whom he intends to recommend for appointment as the chairman of the Royal Commission on Taxation of Profits and Income in place of Lord Waverley.

THE PRIME MINISTER: The hon. Member must wait and see.

MR HUGHES: Will the Prime Minister bear in mind that the man needed for this post is a chartered accountant who has a knowledge of big business and who is not liable to accede to the pressure of vested interests? Would he not agree that Mr Steven Hardie would be the ideal man for the job?

Hansard, March 10th, 1952. Oral Answers, Col. 1011.

Royal Commission on the Taxation of Profits and Income

The minutes of evidence for Friday, November 23rd, 1951, the seventh day of public hearings, are now on sale at H.M. Stationery Office, price 2*s* 6*d* plus postage. Evidence on that day was given by Mr H. N. Hume, C.B.E., M.C.

Manchester Society of Chartered Accountants

NORTH LANCASHIRE BRANCH

A one-day conference, to which members of the Manchester Society and of the Bolton Branch of the Manchester Society are invited, will be held at *The Queen's Hydro*, Blackpool, on March 29th.

This is the second one-day conference to be arranged by the Branch and this year, instead of a formal paper being read, there will be two sessions of a Brains Trust, with a panel of five members: Mr G. Waterworth, F.C.A. (*Blackburn*), *chairman*; Mr F. Carruthers, A.C.A. (*Manchester*) and Mr F. M. Gilliat, F.C.A. (*Manchester*), members of the Taxation and Research Committee of the Institute; Mr H. T. Nicholson, F.C.A. (*London*); and Mr E. Gordon Turner, M.C., F.C.A. (*Manchester*), member of the Council of the Institute. Programme for the day:

10.15 a.m. Conference assembles. Morning coffee. 10.45 a.m. Annual general meeting of the Branch. 11 a.m. First session of the Brains Trust. 12.45 p.m. Luncheon. 2.30 p.m. Address by Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales. 2.45 p.m. Film show for ladies in the Brighton Hydro. 3 p.m. Second session of the Brains Trust. 4.30 p.m. Afternoon tea. 6.30 p.m. Informal dinner.

Ladies are invited to be present for morning coffee, lunch, tea and the informal dinner.

The Institute of Actuaries

The tenth sessional dinner of the Institute of Actuaries was held at the Connaught Rooms, London, WC2, on March 12th, with Mr F. A. A. Menzler, C.B.E., President of the Institute, in the chair.

Among the 534 members and guests who attended were the Rt. Hon. Sir David Maxwell Fyfe, P.C., Q.C., M.P., Home Secretary and Minister for Welsh Affairs, the Rt. Hon. Lord Latham, J.P., F.A.C.C.A., Chairman, London Transport Executive, and President, Association of Certified and Corporate Accountants, Mr C. W. Boyce, C.B.E., F.C.A., President, The Institute of Chartered Accountants in England and Wales, Mr C. Percival Barrowcliff, F.S.A.A., President, The Society of Incorporated Accountants and Auditors.

Replying to the toast of 'The Institute of Actuaries', proposed by Sir David Maxwell Fyfe, Mr Menzler described actuaries as statisticians with a specialized training in making certain types of long-term financial estimates. On the basis of these, he said, people were prepared to save their money by handing it over to life offices, pension funds, and the like, with the prospect of getting it back, with accretions, in various contingencies. The work of actuaries was scientific financial planning. That was why they could make contributions in industrial management and planning, in the sphere of commerce, and in the government service. The number of actuaries employed in industry and commerce was increasing. Forty per cent of the entrants to the profession were of honours graduate calibre.

The Institute and the Faculty of Actuaries in Scotland, Mr Menzler said, had recently appointed a team to study the financial and economic effects on the national economy of the rapid growth in pension commitments of all kinds, both public and private, in an ageing population.

The President-elect is Mr W. F. Gardner, General Manager, Prudential Assurance Co; other honorary officers, for 1952–53, are *Vice-Presidents:* Messrs A. T. Haynes, C. F. Wood, R. J. Kirton, M.A., C. F. Trustam, M.A. *Treasurer:* Mr J. F. Bunford, M.A. *Honorary Secretaries:* Messrs S. F. Isaac and J. H. Gunlake, C.B.E.

ALFRED WATSON MEMORIAL LECTURE

The fifth Alfred Watson Memorial Lecture will be delivered by Mr John Ryan, C.B.E., M.C., Vice-Chairman of the Metal Box Co Ltd, and a member of the British Transport Commission, on Monday next, March 24th. The title of the lecture will be 'The use of statistics as an aid to management control' and the meeting will take place in the Conference Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, at 5 p.m.

Presentation

In acknowledgment of their affection and appreciation of his association with the company for the last forty years, the directors of H. Samuel Ltd recently presented a silver cup to Mr J. Wood Massey, F.C.A., senior partner of Messrs Massey & Ellison, chartered accountants, of Birmingham. The cup is a replica of that accepted by His Late Majesty King George VI and Queen Elizabeth, the Queen Mother, at their silver wedding.

Staff Dinner and Dance

At the invitation of the partners of Messrs Blackburns, Robson, Coates & Co, chartered accountants, 128 members of the staff and their guests, including ex-members of the firm, attended a dinner and dance at *The Savoy Hotel*, London, on Friday, March 7th, 1952. Mr Lawrence W. Robson, F.C.A. F.C.W.A., senior partner, who had just completed twenty-five years in practice, was in the chair.

The toast of 'The Firm' was proposed by Mr W. S. Risk, B.COM., C.A., F.C.W.A., a partner of Messrs Robson, Morrow & Co, in an amusing speech. He briefly outlined the history of the two firms – Lawrence Robson & Co and Blackburns, Coates & Co – amalgamated in 1947 into the present firm, and he concluded with graceful references to Mr Robson, his wife and his mother, who were present that evening. Mr A. G. B. Gunn, F.C.A., in a short speech, paid tribute to Mr Robson, enumerating some of his many activities and interests; on behalf of the firm, he presented Mr Robson with a silver salver. On behalf of the partners of Robson, Morrow & Co, Mr Risk presented Mr Robson with a table lighter.

Responding to the toast, Mr Robson related some amusing anecdotes of his earlier years in practice and acknowledged the service he had received from those who were now his London partners, from Mr T. H. Burdon, F.C.A., who was now at Bradford, and from all his staff, present and past. It was just twenty-five years ago that he commenced to practice with the late Mr Stanley Hall Coates and, through him, had met and worked with the late Sir Leonard Coates, who had been so prominent a member of the firm with which his own amalgamated in 1947. He acknowledged that the London branch of the firm, having attained its twenty-fifth birthday, could not compete with the Northern branches as far as age was concerned, the latter being now some 108 years old.

The toast of 'The Guests' was proposed by Mr Harold H. Blackburn, F.C.A., and charmingly acknowledged by Mrs J. R. Davies. A delightful evening concluded with dancing.

The Chartered Accountant Students' Society of London

Five hundred members and their friends attended a very successful and enjoyable dance arranged by the Society and held at the Royal Festival Hall Restaurant on March 8th.

The dancing included eightsome reels and square dancing, while in the intervals the terraces with their fine view of the Thames vied in popularity with the buffet. It was so enjoyable an evening that the Society hopes to arrange another dance here in the future.

Accountancy of Changing Price Levels

The London Area Committee of the Institute of Cost and Works Accountants have invited M. François-M. Richard, a well-known French accountant, to discuss the subject of accountancy of changing price levels.

A fluent English speaker, M. Richard will address a meeting, with Sir Henry Wilson Smith, K.C.B., in the chair, at the Beaver Hall, Great Trinity Lane, London, EC4, on Tuesday, April 1st next, at 5.15 p.m.

In a fifty-minute talk, M. Richard will examine French fiscal policy in an inflationary economy; he will discuss the fiscal measures enacted to minimize the effects of inflation and will also outline the lessons that may be learned from the French system. Questions and discussion will follow. Free tickets of admission may be obtained from the Director, Institute of Cost and Works Accountants, 63 Portland Place, London, W1.

Annotated Tax Cases

Part six of Volume XXX of the *Annotated Tax Cases*, edited by Mr Roy Borneman, of Gray's Inn, Barrister-at-Law, is published today and contains reports, with notes on the judgments, of the following cases: *Friends Provident and Century Life Office and Another v. Investment Trust Corporation Ltd and Others* (H.L.); *In re Beit* (C.A.); *Union Corporation Ltd v. C.I.R.* (Ch.D.); *Johannesburg Consolidated Investment Co Ltd v. C.I.R.* (Ch.D.); *Trinidad Leasehold Ltd v. C.I.R.* (Ch.D.); *Fielding & Son (Werneth) Ltd v. Green* (Ch.D.); *Green v. Craven's Railway Carriage & Wagon Co Ltd* (Ch.D.); *Thomas v. Marshall* (Ch.D.); *In re Lambton's Marriage Settlement* (Ch.D.); *In re Lyons* (C.A.).

The annual subscription to the *Annotated Tax Cases* is 30*s* post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

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CONTENTS

THE ROYAL COMMISSION

THE INSTITUTE'S MEMORANDUM

THIS week we reproduce in full Head 21 of the Institute's memorandum to the Royal Commission on the Taxation of Profits and Income. Submissions under the other headings appeared in our last issue.

We feel sure that this succinct and balanced statement by the Council of the difficulties created by the conjunction of high taxation of profits with rising prices will be of great assistance to the Commission. There surely cannot be any convincing answer to the logic of the statement that 'the principle of historical cost must, unless and until some satisfactory alternative is available, continue of necessity to be the basis on which annual accounts are prepared for shareholders'. While it may well be true that the pound sterling of today is not the pound sterling of pre-war in purchasing power, it still remains the only commonly accepted symbol of value and moreover, no matter how much it may have changed, its value at any given time is universally known and understood. Notwithstanding the vicissitudes of the pound, inflation here is comparatively slight and measures which may be justified in France, Belgium or Germany are not thereby justified in this country. The question whether special tax reliefs should be given to businesses as distinct from the general body of taxpayers is a highly controversial one, as has been shown at public sessions of the Commission, and it is perhaps not the function of a professional body to enter into it.

What a professional body can properly do is to show how that object, if decided upon, is to be achieved, and on this aspect the Institute's contribution will be most valuable. It is difficult to imagine any legislation designed to assist stock replacement being anything but excessively complicated. Given a reasonable latitude in bases of stock valuation, the complaints of most business men on this topic should be substantially met.

It is to be observed that the suggested replacement allowance put forward in paragraph 332 of the Council's memorandum postulates that a satisfactory system of giving relief in respect of retained profit is not possible. The allowance is a combination of depreciation allowances and allowances for renewals. On first purchase of an asset, depreciation allowances are given in the ordinary way, but when the original asset is replaced the aggregate of these allowances is deducted from the net cost of replacement, i.e. cost of new asset less proceeds of sale of old, and the balance of that net cost is allowed against the assessment on the profits for the tax year of replacement. Thereupon the only expenditure

unallowed is a sum equal to the cost of the original asset, and depreciation allowances on this sum begin again, the process being repeated for each new replacement. Presumably when the net cost of replacement is less than the allowances already given, a balancing charge is made.

Thus the replacement allowance, being given immediately the replacement takes place, is calculated to give financial assistance at the time it is needed. It is in this way similar to the initial allowance, which is soon to leave us, and it is interesting to observe that in the example given in the memorandum, an initial allowance of two-fifths would give allowances roughly one-third greater than the amount of the proposed replacement allowances. Again, as with initial allowances, the profit for income-tax purposes would differ from the profit shown by the accounts.

The proposed replacement allowance differs from initial allowance, however, in the following respects:

(*a*) It is confined to replacements, notwithstanding that the total allowances cannot exceed the net capital expenditure, and accordingly there would be no relief for the new or expanding business.

(*b*) It requires the ascertainment of the first cost of the original asset, which may be difficult.

(*c*) Where there is a substantial element of improvement in the new asset, an apportionment would be necessary.

(*d*) It cannot be calculated without bringing allowances on the previous asset into account.

(*e*) To give immediate relief it involves reopening an agreed computation and adjusting an assessment which, in most cases, will already have been made.

Under Part A of the Commission's Notice, on the more general aspects of taxation, the Institute has submitted evidence in connexion with all but the matters dealing with the encouragement of savings, the control of inflationary and deflationary tendencies, the effect of taxation on the distribution of personal incomes, and other economic and social objectives.

The Council considers that income-tax does act as a disincentive to increasing earnings, that in particular P.A.Y.E. may, to a relatively small extent, be a contributory cause of absenteeism and an unwillingness to work overtime.

The Council does not advocate a linking of the social security legislation with income-tax. It considers that the administrative savings which would result from the abolition of income-tax personal allowances as such would be more than counter-balanced by the work involved in paying weekly cash allowances in lieu. Moreover, in the Council's view, the collection of weekly contributions to social insurance has a psychological advantage in bringing home to the recipients of benefits the fact that these have to be paid for. It considers that some savings could be effected by ignoring both contributions and benefits for income-tax purposes, with the exception of retirement pensions.

We welcome the recommendation that the rules governing the granting of expenses allowances in Schedule E assessments should be made less harsh. We made this topic the subject of a leading article as long ago as October 23rd, 1948.[1] In this connexion the Council very properly points out the anomalous position of benefits received by employees which are not subject to tax. The matter was summed-up by the late MR JUSTICE ROWLATT in *Machon v. McLoughlin* ([1926] 11 T.C. 83), at page 89:

> 'If a person is paid a wage with some advantage thrown in, you cannot add the advantage to the wage for the purpose of taxation unless that advantage can be turned into money. That is one proposition. But when you have a person paid a wage with the necessity – the contractual necessity if you like – to expend that wage in a particular way, then he must pay tax on the gross wage, . . .'

Thus the employee receiving £40 worth of luncheon vouchers a year from his employer is much better off financially than the one whose salary has been increased by £40 on condition that he spends it on luncheons.

We are pleased to see that the Council does not regard as sacrosanct the practice of taxing the owner-occupation of dwelling-houses. It includes under Head 6 these words:

> 'If it is still considered that the occupation of one's own house is a source of income which should be taxed, the present method of assessment under Schedule A is reasonably satisfactory in these cases, provided that repairs and maintenance expenditure are allowed in full as recommended.'

[1] 'Faithful Service Thus Repaid', *The Accountant*, October 23rd, 1948, page 325.

SHORT LEASES: DEDUCTION FOR LOSSES

by T. J. SOPHIAN, Barrister-at-Law

THE question whether, in computing the liability for excess rents in respect of short leases, a taxpayer was entitled to deduct losses in respect of other leases which he held was raised recently in the important case of *Littman v. Barron* ([1951] 1 Ch. 993; 30 A.T.C. 139).

The History of the Matter

The case of *Salisbury House Estate Ltd* ([1930] A.C. 432; 9 A.T.C. 101) decided that a Schedule A assessment was exhaustive.

This decision was primarily of importance as regards London properties, the annual value of which was fixed under the Valuation (Metropolis) Act of 1869. In respect of properties outside London the annual value was measured by Rule 1 of the Rules applicable to Schedule A and for the latter purpose the actual rent would be taken if the property was let at a rack-rent within seven years of assessment; or if not then the rack-rent which they were actually worth.

As regards London properties, Section 31 of the Finance Act of 1930, in effect, made the rules for ascertaining the annual value applicable to properties outside London, applicable also to London. It should be observed, however, that for these purposes no alteration was made in the schedule for the purpose of the assessment, the tax being chargeable still under Schedule A.

In order to meet the decision in the *Salisbury House* case, Sections 13–18 of the Finance Act, 1940, were passed. The primary object of these sections was, in substance, to subject rents to the same amount of tax as they would have attracted had their Schedule A assessment been made by reference to the rents actually received. Under Section 17 the method of deduction of tax from the payment is adopted, the rent being placed in much the same position as a royalty payment. Under Section 15 on the other hand the excess is chargeable under Case VI of Schedule D. The sum thus chargeable under Case VI will be the excess, if any, of the notional amount of an assessment calculated on the basis of the annual value being determined by reference to the actual rent and other terms of the short lease *over* the greater of the following amounts, (*a*) the actual amount of the Schedule A assessment as reduced for collection; or (*b*) the amount of the rent payable by the immediate lessor in respect of the unit *under any short lease.*

Some Illustrations

There are three elements in the formula: (*a*) the rent actually paid by the immediate lessor under the short lease; (*b*) the notional Schedule A assessment based on that rent; and (*c*) the actual Schedule A assessment.

If these three elements are in the following ascending order of magnitude, (*a*), (*b*) and (*c*), the commercial profit would be represented substantially by the excess of (*b*) over (*a*), yet there would be no excess taxable under Section 15, the reason being that as the rent received, although exceeding the rent paid is less than the actual Schedule A assessment, the Schedule A assessment effectively brings into charge the whole of the rent actually received.

If the elements, however, are in the following ascending order of magnitude, (*a*), (*c*), (*b*), the commercial profit would be represented substantially by the excess of (*b*) over (*a*), but the excess for the purpose of Section 15 would be limited to the excess of (*b*) over (*c*); the reason being that the excess of the rent received over the rent paid up to the actual Schedule A assessment would be effectively brought into charge by the Schedule A assessment itself.

Where the ascending order of magnitude is (*c*), (*a*), (*b*), the excess for the purpose of Section 15 will approximate to the commercial profit although it will not exactly coincide therewith; and in this case the difference between the rent paid by the immediate lessor, (*a*), and the actual Schedule A assessment, (*c*), would under Section 16 of the Act be brought into charge against the superior landlord for the purpose of determining the excess to which he himself would be chargeable under Case VI.

Further, one might take the example where the rent payable is a rent payable under a long lease. This rent accordingly would have to be ignored in calculating the excess under Section 15; the reason for this apparently is that the rent payable by the immediate lessor under the long lease, would be paid subject to a deduction of tax under Section 17 of the Act. Thus, on the assumption of a standard rate of 10*s* in the pound, if an immediate lessor is himself a lessee under a long lease at a rent of £300 per annum, and if such immediate lessor sublets on a short lease at a rent producing a notional Schedule A assessment (for the purpose of the calculation under Section

15) of £200 per annum and the actual Schedule A assessment is £100, there would be a chargeable excess under Section 15 of £100, although in fact the immediate lessor had sustained a commercial loss of £100; for the immediate lessor would under Section 17 deduct tax at the standard rate on the £200 rent payable by him and he would retain the tax of £100, thus having recouped the tax with which he himself was chargeable on the Section 15 excess. These examples accordingly indicate that there is no necessary relation between the excess chargeable under Section 15 and the commercial profit which might be realized by the immediate lessor.

The Facts in *Littman's* Case

In *Littman's* case the taxpayer owned twenty-eight leasehold properties; twenty-three were sublet at rents in excess of the rents payable by him and also in excess of the actual Schedule A assessments. With regard to two of the other properties, these were let at rents lower than the rents payable by him to his own lessors and with regard to the remaining three, these were unlet by him. All the leases were short leases. The immediate lessor was assessed to tax under Schedule A on the annual value of these properties and on the excess rent in respect of twenty-three of them and he claimed to be entitled to a deduction in respect of the loss which he had sustained in respect of the other five by virtue of Section 27 (1) of the Finance Act of 1927. Under that section, in order to be able to claim a loss, the taxpayer must show that the loss was in respect of

> 'a transaction of such a nature that, if any profits had arisen therefrom he would have been liable to be assessed in respect thereof under Case VI of Schedule D'.

Two points of importance which arose for determination in the case were whether it could be said that the dealings by a taxpayer in respect of these leasehold properties were 'transactions', and secondly, if they were transactions whether the 'loss' was one within the meaning of Section 27.

The Court held that the taxpayer in respect of each property was engaged in a separate transaction, the transaction as a whole covering a number of acts, namely, (1) the acquisition of the property; (2) the payment of the head rent; (3) the attempts made to sublet; (4) the actual subletting (in two of the cases); (5) the receipt of the rent from the subtenants.

Meaning of 'Loss' and 'Profit' Difficulty

The real difficulty is with regard to the meaning of 'loss' and 'profit' in Section 27. It was conceded by both parties that had the lease been a long lease and not a short lease the taxpayer would have been entitled to the relief which he was seeking, namely to set off the loss in respect of the other properties.

The argument of the Crown was that both 'loss' and 'profit' were to be understood in their ordinary commercial sense; if that was so, then the right of deduction could not arise under Section 27 since according to the formula required by Section 15, it would be possible as already pointed out, that although there might be in a given year a commercial profit, no assessment could be made under Case VI by reason of the fact that the Schedule A assessment was higher than the rent receivable from the subtenant (see the example given above).

It was argued on the other hand on behalf of the taxpayer, that although the meaning of 'loss' in Section 27 might have to be limited to a commercial loss, yet the reference to 'profit' in that section was not a reference to a commercial profit, but to a profit taxable under Case VI, and with this view the majority of the Court of Appeal agreed. Moreover it was pointed out in the course of the argument, that if this view of the section was not adopted then not only would there be a most anomalous distinction between the position of an owner of the unexpired portion of a 'long' lease of fifty years on the one hand and on the other the position of an owner of the unexpired portion of a lease for forty-nine years (a 'short' lease within Section 15), but also the taxpayer might have to pay tax and possibly sur-tax on one or more properties although his income from the properties as a whole and possibly from all sources was nil; and in fact the taxpayer would, as a result of the interpretation sought to be placed on Section 15 by the Crown, be worse off than he would have been had he failed in the *Salisbury House* case. (See 1951, 1 Ch. at pp. 1102, 1106.)

The Court of Appeal by a majority accordingly held in this case that the taxpayer was entitled to make the appropriate deductions in respect of the losses he had sustained in regard to the first two of the properties which were let at rents lower than that which were payable by the immediate lessee; that loss was represented by the excess of the rent paid by the taxpayer himself over the notional annual value determinable for the purpose of the Section 15 computation. On the other hand with regard to the remaining three properties which were unlet, the loss was represented by the amount of rent payable by him to his own lessors.

QUO VADIS?

Has the Accountant a Direct Contribution to make to Increased Productivity?

by F. R. M. de PAULA, C.B.E., F.C.A.

WHEN I left home, we were in the midst of the General Election. We were very worried as obviously a very vital decision had to be made, and one which might have profound effects upon the whole future of our old country. Many thought that if the Conservative Party was elected that we should then 'live happily ever after'.

Our old wartime leader, Mr Churchill, however, upon becoming our Prime Minister once more, has immediately faced us with realities, and made it clear to all that we are facing one of the greatest economic crises we have ever met. The urgent problem is, of course, the 'dollar gap'.

The point that I wish to consider is whether, and if so what, contribution accountants can make towards the solution of the country's difficulties.

The Individual Citizen

The individual citizen finds it very hard to understand the reason for our great difficulties, nor is he at all clear how any effort of his can make a worthwhile contribution. When he is told that the 'dollar gap' amounts to countless millions, it seems to him to be quite impossible that its solution can in any way be effected by his personal efforts. In time of war there is an immediate emotional reaction by every citizen – all are anxious to make a contribution and are prepared to accept many sacrifices – but the the same urge does not exist in the case of an economic crisis.

The Problem is Simple in Fact

The problem is, however, very simple in fact. At the present time Great Britain is purchasing more from the dollar areas than she is selling to them; therefore there is a deficiency which at the present time is being met out of our fast-dwindling reserves of hard currencies. If these reserves are exhausted, then our imports will have to be reduced by the amount of the deficiency of exports because foreign countries will not be prepared to sell us more than we can pay for in exports.

The position is therefore exactly the same as that of an individual family where the total family expenditure is running ahead of the total income. In such circumstances, there are two policies, i.e. drift or action. Under the first, the family can run its credit with the butcher, the baker and the candlestick maker, until the morning mail brings letters starting with the ominous word 'Unless'. The next stage may be to borrow from the bank and elsewhere until father receives a letter advising him that his limit has been reached. Father may then sell his available investments and other assets, but when these have been exhausted, then the inevitable smash must be the final result of that policy.

The Only Sound Policy

The only sound policy which has any hope of success is one of action: the first course is to consider every item of the family expenditure and immediately to cut out every item that is not absolutely essential; every endeavour should then be made to increase the family's earnings, but the latter course is more difficult than the first.

I suggest that it is exactly the same in the case of a nation. The national expenditure comprises, of course, the expenditure of all its citizens, its industries and the government itself, including local government. Of these, by far the most important is the expenditure of the government itself, and therefore, the cutting down of the nation's total expenditure is in the main a political matter and therefore the decision rests with the government. It follows that we as individual citizens cannot play a big part in this, but industry can, as I shall endeavour to explain.

Regarding the nation's income, the government has little income, except that which it receives in the form of taxes etc. from the individual citizen and from industry.

Industry's Vital Part in the Problem

A vital part of this problem, it seems to me, lies with industry.

The United Kingdom still has to import a very big proportion of its food and the whole of many of its essential raw materials; the only way by means of which we can pay for these imports is by exports. An urgent need of Great Britain therefore is to increase its industrial productivity. The fateful question is: can we avoid a crash without very materially increasing our productivity?

I submit that there is much to be learned from a study of the industrial history of the United States of America. America has had a steadily rising cost of

An address delivered on November 27th, 1951, at a meeting in Sydney, Australia, arranged by the N.S.W. State Council of The Institute of Chartered Accountants in Australia and the N.S.W. Division of the Australian Chartered Accountants' Research Society. The Chartered Institute of Secretaries and the other accountancy institutes which participated in the 1949 Australian Congress on Accounting accepted an invitation to associate themselves with the meeting. Mr R. A. Irish, Chairman of the N.S.W. State Council of The Institute of Chartered Accountants in Australia, was in the chair. The lecture and a full report of the meeting is published in the February 1952 issue of the *Chartered Accountant in Australia.*

living over many years past, but she has always matched this rise by increasing industrial productivity. This has been achieved by mechanization, better industrial processes, improved methods of control and, in fact, by constant improvement in both technical and labour efficiency.

Accountants and Increased Industrial Productivity

The point for consideration, therefore, is whether accountants can make a direct contribution to increased industrial productivity by learning and taking part in this new technique of management.

This movement was started some fifty years ago by the late F. W. Taylor, an American engineer, who first commenced intensive research work in the field of scientific management. This research has been carried on ever since, and thus America has made a vital contribution in the field of management.

Many industrialists in Great Britain and in other countries have studied America's methods and have developed them in their own countries. There are many concerns at home and elsewhere which have proved out this new technique over many years, and have obtained remarkable results which have in fact greatly increased their productivity.

Anglo-American Council on Productivity

A few years ago, the Anglo-American Council on Productivity was set up in London and New York, whereby industrial experts in the two countries have been organized to study this problem and to compare methods and experiences. Parties from particular industries have visited each other's industrial concerns and have studied and compared their technical methods.

Each party, upon completion of its studies, makes a report, and these are all available to the public; there is a wealth of valuable information to be found in these reports. A recent one was a report by a British team on management accounting which is a study of methods and practices in America[1]. I suggest that every industrialist and accountant should study this report.

A New Technique of Management

It is quite clear that a new technique of management has been evolved. It has been proved out upon the anvil of practice and there is no doubt that it does enormously increase productivity.

An essential part of the control methods, by means of which this technique is operated, depends on a system of figures and returns. Surely this is a field in which the trained accountant can make an invaluable contribution? But success can only be achieved by the accountant working in co-operation with the engineer.

In order to succeed in this work, the accountant must thoroughly understand this whole technique, which is highly technical, and complicated. The accountant has to approach this work from an entirely new angle, as the whole system of control is based on planning ahead in detail, and the setting up of measuring rods by means of which actual performances can be measured against a predetermined level. This technique must be applied at every level of management, from the charge hand to the managing director. Furthermore, every part of the manufacturing process must be measured in terms of time and money cost.

Standards for each Individual Process

Under this new technique every process in the whole system of manufacture is examined separately and minutely. Standards are set for each individual process, so that, for example, a foreman in charge of a group of machines will be able to see, as each batch of production comes through, whether the efficiency is in line with the standard or not. The whole system works in exactly the same way as the setting of bogey does on a golf course. The player knows exactly what score he should attain for each hole and what should be the total for the whole course. When he adds up his score, he sees exactly how his total differs from the bogey total and also the result for each hole. Furthermore, by checking back he can ascertain where and why he lost and/or gained strokes. These new methods operate in exactly the same way in industry, where management in effect sets bogey for every hole that industry plays, and as each hole is played, sees how the result compares with bogey and why the variations have arisen.

'Management by Exception'

Having settled the plan ahead, management wants to know where operations are not working out according to plan. This has been referred to as 'management by exception', in other words, management is not concerned where things *are* proceeding according to plan, but wants to know promptly when they are not, so that corrective action can be taken.

Under this technique, for every operation a standard is set, but these standards must be fixed in agreement with those who have to carry out the work. To set an unreasonably high target does not act as an incentive; therefore the foreman must agree that the target set is a fair and attainable one.

To introduce such a scheme into a business requires great skill and patience. To force it on an unwilling and unconvinced organization would doom the new technique to failure. The whole scheme must therefore be explained to every level of management; it must be made clear that it is for the benefit of all interests, and in particular for the workers who have to operate under it.

Every level of management, therefore, must at least agree to give the new system a fair trial. Experience shows clearly that workers soon become convinced that this technique does benefit them and all other interests.

[1] See *The Accountant*, November 18th, 1950; leading article 'Management Accounting', at page 505.

Centralized Control and Decentralized Responsibility

Management accounting must be based on centralized control and decentralized responsibility, and the whole recording system must be streamlined and must avoid pressing upwards masses of detail. In practice, many systems fail because management becomes lost in a wilderness of detail.

A great deal of detail has to be recorded, but it must be clarified and classified so that at the top level it is reduced to extremely simple and brief records. Top management only requires trends in broad outlines. If the trends are not satisfactory, then top management calls for the details and the reasons for the adverse movements. The whole system results in prompt action and avoids the holding of inquests long after the event. It will be realized that it results in the watching of variances from the expected: these can be seen immediately they take place and thus prompt action can be taken.

From the point of view of normal accounting in connexion with the preparation and audit of annual accounts, this is an entirely new approach. Last year's accounts are 'water over the dam' which can never be put back, but management accounting is ever looking forward and taking a part in the day-to-day control of an undertaking.

The Accountant's Important Part

The accountant is not responsible for the operation of the whole of this technique, but he can play an important part in it, as a member of a team. In this way the accountant can make a direct contribution to increased productivity, which today is a vital national need.

Without doubt, I suggest, industry does need this technique, but the point arises as to whether this work should be carried out by:

(*a*) The accountant in industry.
(*b*) The engineer in industry.
(*c*) The management consultant.
(*d*) The accountant in general practice.

It is clear that this is work for a specialist, but the point is – who should the specialist be?

Regarding the general practitioner, it may be that medicine can provide us with an example. The medical general practitioner has a working knowledge throughout the field of medicine and surgery, and this knowledge should enable him to diagnose a complaint, and if serious, recommend the calling-in of the specialist. On this reasoning it might be argued that the accountant in general practice should have a working knowledge of this new technique and thus be enabled to recommend the calling in of a management specialist in cases where the control system of a business is faulty and is causing the adverse financial results.

At home, the profession has not made up its mind on this important problem. There are accountants in industry and some practitioners who are specialists in this work. There is an ever-increasing demand for their services, and there is no doubt that industry requires greatly increased numbers, but the problem is where are these specialists to come from?

If the demands of industry are to be met satisfactorily, then great efforts must be made to carry out research, to study this problem, and to provide literature and teachers in order to provide properly trained personnel.

As many at home see it, the golden opportunity is there for accountants vastly to increase their service to the community, the accountancy profession is at the parting of the ways and, therefore, the question is, 'which way should the profession travel?'

WEEKLY NOTES

The Scottish Institute

Sir David Allan Hay, K.B.E., C.A., was elected President of The Institute of Chartered Accountants of Scotland for the year 1952–53, and Mr John Livingston Somerville, C.A., F.R.S.E., was elected Vice-President for the same year, at the first annual general meeting of the Institute, which was held last Wednesday in Edinburgh.[1]

We hope to include a report of the proceedings at this meeting in our next issue.

The Doctors' Pay Claim

The claim by the British Medical Association for higher pay for doctors in the National Health Service has been heard and decided by Mr Justice Danckwerts, sitting as adjudicator. He had to 'determine the size of the central pool after taking into account remuneration from all other sources received by general practitioners, in order to give effect to the recommendations of the Spens Committee, having regard to the change in the value of money since 1939 and to the increases which have taken place in incomes in other professions, and all other relevant factors'. According to a report in *The Times* one of the counsel for the Association quoted statistics to show that between 1938 and 1950 only the professional classes had lost ground as money-earners. Wage-earners had gained about 30 per cent in real consuming power since 1938, apart from increased social service benefits. A general practitioner who earned £1,000 in 1937–38, plus property income of £275, would need in 1949–50 a total income of £2,200 to maintain his position in the hierarchy. Of this, £400 would be from property and £1,800 professional earnings. An official of the Inland Revenue gave evidence *in camera* for half an hour of the incomes earned by professional men,

[1] See *The Accountant* dated March 8th, 1952.

working on their own account, before and after the war. As the information was not public and referred only to a certain section of the population, it was thought undesirable to give it in public. The hearing was concluded on March 21st and the adjudication was announced in Parliament last Tuesday.

The learned judge determined the size of the central pool for the year ended March 31st, 1951, at £51,252,000. In arriving at this figure he applied a betterment factor of 100 per cent to the figure of £19,890,000 for 1939, and he considered that the corresponding factor in 1948 would be 85 per cent. He had adjusted the figure by reference to the number of doctors in the Health Service and not to the population, but this point would require reconsideration if the number of doctors in the service became unreasonably large. He had taken a percentage of 38·7 for expenses but had not accepted entirely the figures to which this percentage should be applied.

It is estimated that this adjudication will mean an increase in the total payments to doctors in the Health Service of about £10 million annually.

More Unemployment in February

Unemployment increased from 1·8 to 1·9 per cent of the employed population in February compared with January. This is a slight move, of course, yet it is none the less a move for the worse, although there is some distance to go before the country gets to the 3 per cent level which is now generally taken as a rough-and-ready indication that the country is just on the point of full employment.

The change on the month is an increase in people out of work of 14,700, bringing the total for the country to 393,500. At this time of the year there is a certain amount of seasonal unemployment and this fact makes the exact significance of the figures difficult to determine though the general inference is plain enough.

In a way the feeling of deceleration of industrial activity which lies behind the employment statistics and is now coming out in the national calculations of industrial output is more clearly seen in the trend of overtime and short time. Figures of these are rather behind the actual unemployment returns, by about a month, but they show a slight if significant movement for the worse. There were 120,000 fewer working overtime in January than in September and there were 216,000 working short time in January, compared with 66,000 in September.

Two Urgent Shipping Problems

In the annual report of the Liverpool Steam Ship Owners' Association which has been published recently, the emphasis is on the need for an overhaul of taxation allowances for shipping companies and for a speedier turn-round of ships.

The shipping industry is faced with the need to replace a large volume of tonnage which survived the war and which cannot be kept running a great deal longer at an economic return. At June 30th, 1951, 23 per cent of Britain's deep-sea fleet was at least twenty years old. The coastal shipping position, goes on the report, was even worse – 40 per cent was twenty years old and more. It has apparently been remarked to the Association that a change-over in the calculation of depreciation allowances from historical to replacement cost involves a breach of the true principles of accountancy. On this point the Association has this to say:

> 'The Association does not understand that proposition. If it is right in its belief that the present system and burden of taxation will, if continued, inevitably deprive industry of resources essential to its existence, then the principles of accountancy, whatever they may be thought to be, must be subordinated to those of national interest and survival.
>
> 'The function of accountancy is not one of management but to record fact, and its principles will, after all, become of no more than academic interest if there is nothing to which to apply them.'

The report is concerned about the slow rate of turn-round of ships at British ports and considers that some of this could have been avoided if the industry had had greater priority in making good war losses. It will be recalled in this connexion that the Secretary of State for the co-ordination of Transport, Fuel and Power, announced in a debate in the House of Lords recently that an investigation into the efficiency of the working of the ports, especially of London and Liverpool, was being put in hand by a small high-powered Ports Efficiency Committee.

Retail Trade Pattern

Figures are now available for the retail trading year which runs from one January to another. There is something of a paradox in the results for the year ended in January. Sales were 9 per cent higher than in the previous twelve months. Such results are in a way remarkable in view of the pessimism in the retail trade in the later months of 1951.

The explanation is, of course, that the increase reflects an advance in prices above anything else and that the good trading results were very much concentrated in the early months of the year – from January to the early summer. An examination of the individual classes of food and merchandise also shows that there were very great differences in the experience of varying sections of the trade. There was, for instance, a drop in the sales of dress materials of 8 per cent and an increase in the sales of women's stockings of 20 per cent. Fresh meat sales were down by 7 per cent while purchases of poultry, game and so on were up by 20 per cent.

There is no sign from the figures that a notable change for the better in turnover is coming for retail houses.

Finance Bill, 1952

The Finance Bill 1952, will have been published by H.M.S.O. by the time this issue appears. We hope to discuss the Bill in a leading article next week.

FINANCE AND COMMERCE

While the gilt-edged market keeps relatively firm the reaction in equity values continues. British Government stocks gain strength from the improvement in sterling but the recession in the textile trades overshadows the equity markets. Business throughout the market, however, remains small and while there may be firmness in some sections there seems little real confidence.

Salop Accounts

We are indebted to Mr Leonard Copplestone, County Treasurer, for the budget and accounts publication of the Salop County Council. The accounts are for 1950–51 and the budget is for 1952–53. Combination of budget and accounts, he points out, follows a growing tendency to combine the two so that members of the authority are able to compare the coming year's estimates with the last known actual position. Advantage is then taken in the accounts section not to repeat this information which is available on reference to the budget pages.

The accounts, says Mr Copplestone, are presented in a 'somewhat unorthodox form' with balance sheets in a 'new and perhaps experimental style', the object of the latter being to state assets and liabilities in main groups, the difference between them being the balances of various kinds.

Introducing the accounts in this form, Mr Copplestone points out in a foreword that standard local authority practice is to include fixed assets in the balance sheet at original cost, a procedure originated when it was thought necessary to demonstrate the way in which borrowed money had been spent. He suggests that the passage of time and complications caused by financing capital expenditure from revenue and other sources than borrowing have modified this former need. Further, original cost can be misleading if it is deemed to indicate value.

We have extracted from the 140 pages of budget and accounts the consolidated balance sheet which illustrates Mr Copplestone's line of experiment. We feel sure Mr Copplestone, at his Shrewsbury headquarters, will be pleased to lend a copy of his publication to those of our readers who have a special interest in the accounts of local authorities.

Marley Tile

We acknowledge the accounts of The Marley Tile (Holding) Co Ltd with thanks to Mr J. W. S. Stoker, the company's secretary. It is entirely a holding company and the consolidation is therefore of more than usual importance. In addition to the normal accounts, the consolidated view is presented back over six years to 1946. In its way, this extension is very useful but its value is limited by the fact that it does no more than extend the comparison of the figures. The form is the same as is used in the consolidated balance sheet giving the figures for the last two years. We have current assets less current liabilities plus fixed assets plus goodwill, and shares in associated companies less minority interests, the final total being agreed in single column form with share and loan capital and reserves.

We suggest that where this form of extension is given to the normal accounts, the figures should be made to say something more than they have already. As an example, we refer to the extracts from the Caterpillar Tractor accounts reprinted this week.

Jobbing Backwards

To disheartened home-seeking readers we suggest a look at page 13 of the Co-operative Permanent Building Society's 1951 report. They will see there a picture of 'the cottage which secured first prize in a competition for the best house built at a cost not exceeding £150'. This was in 1904 when the Co-operative Permanent took an active part in the creation of the first garden city at Letchworth, Herts, by allocating £80,000 for advances. Those were the days – or were they?

SALOP COUNTY COUNCIL

All Accounts

Consolidated Balance Sheet, March 31st, 1951

BALANCES ON ALL ACCOUNTS

	£	£	£
Amount required to meet commitments:			
Deferred Charges for Capital Expenditure		1,975,197	
Less **Amounts in hand:**			
Available to meet Commitments:			
Capital Receipts	19,013		
Police Pensions Account ..	3,530		
Smallholdings Reserve Account	38,156		
Provided to meet Future Commitments:			
Superannuation Fund	536,384		
Trust Accounts	3,463		
Boundaries Financial Adjustment Moneys	21,685		
Roads and Bridges Plant Replacement Account	28,207		
Other Accounts	7,995		
Provided for Working Capital:			
Rate Accounts	739,077		
		1,397,510	
Net Balance required*			£577,687

COMPOSITION OF BALANCES

	£	£	£
Liabilities			
Debts *owing by the Council*	*211,849*		
Loans *to the Council*	*2,074,628*		
		2,286,477	
Less **Assets**			
Cash	*601,416*		
Stocks	*72,466*		
Debts *owing to the Council*	*439,166*		
Investments (*at cost – details page 118*†)	*595,742*		
		1,708,790	
Excess of Liabilities over Assets equivalent to Net Balance required..*			*£577,687*

* **Fixed Assets:**
Nothing has been included above for the value of land, buildings, plant, machinery, vehicles, furniture, equipment and other fixed assets of the Council.

(†Not reproduced. – Editor.)

Caterpillar Again

From Mr W. Blackie, vice-president of the Caterpillar Tractor Co of Illinois (and a member of The Institute of Chartered Accountants of Scotland) we have received his company's accounts for 1951. The president's address and auditors' report are dated January 18th, an outstanding example of prompt accounting compared with general practice in this country.

We gave a full reprint of this company's accounts last year. Since then, the form has been very closely followed by Joshua Tetley & Son, the Leeds brewers. This year, we have taken extracts from the 'Results of operations', the 'Source of net current assets', and the 'Financial position'. These statements in the original cover an eleven-year period.

The year's final result is that sales were up but profit down substantially. This is no shock to stockholders who have been kept informed of the company's position during the year by monthly profit statements to the New York and San Francisco Stock Exchanges and by quarterly reports.

Three main factors were responsible for the fall in profits: abnormally high costs of steel; higher rates of federal income-taxes; and a strike at the Peoria plant.

The steel position in America is very much as here and the company was faced either with curtailing output or buying foreign steel in unsuitable form and converting it to the form required for the company's production. The first course would have meant a lay-off of thousands of employees, hardships, general disruption and a substantially lower profit than is now reported. The company chose to buy steel and convert at a final cost some \$23½ million higher than if the steel had been obtained in the normal manner.

Money Market

Treasury bill applications totalled £251,850,000 on March 21st, and maintaining the bid at £99 8*s* 5*d* the market obtained 68 per cent of requirements. The average rate was little changed at £2 6*s* 3·39*d* per cent. This week's offer is increased to £210 million.

CATERPILLAR TRACTOR COMPANY
Results of Operations

	1951 \$	1950 \$
Sales	\$393,756,098	\$337,285,327
Costs:		
Inventories brought forward from previous year	\$72,978,789	\$64,193,505
Materials, supplies, services purchased, etc.	277,504,211	187,669,225
Wages, salaries, company contributions for group insurance, pension plan, unemployment insurance and old-age benefits	111,261,646	90,000,855
Portion of original cost of buildings, machinery and equipment allocated to operations (depreciation and amortisation)	7,843,127	5,526,554
Interest on borrowed funds	683,003	409,692
Federal income and excess profits taxes	20,438,043	33,200,000
	\$490,708,819	\$380,999,831
Deduct Inventories carried forward to following year	112,684,862	72,978,789
Costs allocated to year	\$378,023,957	\$308,021,042
Profit for year	\$15,732,141	\$29,264,285
Profit percentage of sales	4·00%	8·68%
Profit per share of common stock (after deducting preferred stock dividends where applicable)	\$3·90	\$7·49
Dividends per share of common stock	\$3·00	\$2·25

Source of Net Current Assets

	1951 \$	1950 \$
Additions to net current assets:		
From profits:		
Profit for period excluding income from settlement of patent litigation	15,732,141	29,264,285
Add:		
Income from settlement of patent litigation less income-tax thereon	—	—
Adjustment of investment in other properties	—	1,445,733
Portion of original cost of buildings, machinery and equipment allocated to operations (depreciation and amortisation)	7,843,127	5,526,554
	\$23,575,268	\$36,236,572
From capital assets sold or scrapped etc.	35,960	134,176
From common stock issued	1,124,794	—
From preferred stock issued	—	—
From long-term notes issued	—	—
From ten-year 2 per cent debentures issued	—	—
	\$24,736,022	\$36,370,748
Reductions of net current assets:		
Dividends paid	\$12,338,190	\$9,520,080
Land, buildings, machinery and equipment purchased	25,310,304	17,408,482
Investment in and advances to British subsidiary	447,040	302,461
Investment in other properties	—	(139,903)
Long-term notes paid	—	—
Ten-year 2 per cent debentures paid	57,000	1,910,000
Preferred stock retired	500,000	—
	\$38,652,534	\$29,001,120
Increase or (decrease) in net current assets during period	\$(13,916,512)	\$7,369,628
Net current assets at beginning of period	86,667,357	79,297,729
Net current assets at end of period (statement 5)	\$72,750,845	\$86,667,357

* Net current assets at incorporation.

Financial Position at December 31st

	1951 (1) \$	1950 \$
Current assets:		
Cash	11,066,183	6,895,581
United States Government securities	—	2,100,006
Receivable from customers and others	40,213,054	34,111,251
	\$51,279,237	\$43,106,838
Inventories	114,165,611	72,978,789
	\$165,444,848	\$116,085,627
Deduct Current liabilities:		
Notes payable to banks due within one year	35,000,000	—
Payable to material suppliers and others	36,224,732	29,418,270
Federal income and excess profits taxes	21,469,271	33,072,085
Less United States Government securities	—	(33,072,085)
	\$92,694,003	\$29,418,270
Net current assets (statement 4)	72,750,845	\$86,667,357
Receivable in settlement of patent litigation less income-tax thereon (settled in 1945)	—	—
Prepaid insurance etc.	276,751	204,871
Buildings machinery and equipment (statement 6)	84,110,051	66,024,210
Land	3,511,554	3,160,852
Other properties	—	—
Investment in and advances to British subsidiary	749,501	302,461
Patents, trade-marks and other intangibles	1	1
	\$161,398,703	\$156,359,752
Deduct:		
Notes payable to banks due after one year	—	—
Ten-year 2 per cent debentures due 1956	18,033,000	18,090,000
	\$18,033,000	\$18,090,000
Net assets	\$143,365,703	\$138,269,752
Ownership equities (statement 7):		
Preferred stock	\$24,500,000	\$25,000,000
Common stock	38,184,800	37,644,800
Capital in excess of par value	1,662,000	—
Profit employed in the business	79,018,903	75,624,952
	\$143,365,703	\$138,269,752

(1) Consolidating Trackson Company.

(The notes and statements are not reproduced. – Editor.)

CURRENT LAW

Contract: Anticipatory Breach

The defendant in *Langford & Co Ltd v. Dutch* (*Law Journal*, January 11th, 1952) contracted with the plaintiffs for the showing of a film advertising the defendant's business for one year at £104 per annum payable quarterly in advance from the first showing. Five days later she changed her mind and wrote cancelling the arrangement. The plaintiffs proceeded with the showing, however, and sued for the whole sum of £104. The First Division of the Court of Session found for the defendant on the ground that the plaintiff's proper course was an action for damages for breach of contract. There having been an anticipatory breach, the contract should have been regarded as repudiated.

Company Winding-up

The Cambridge Coffee Room Association Ltd changed its secretary in 1939 and the next one carried on the business from her own address, but she omitted to give the usual notifications to the Registrar of Companies with the result that the company was struck off the register and its property vested in the Crown under Section 354 of the Companies Act, 1948, as *bona vacantia*. The activities of the company were at this time confined to applying its funds to charitable purposes.

In 1950 it was decided to wind up the company, and it was then discovered that the company was no longer on the register. A petition was presented but as it was not certain whether the granting of the petition would re-vest the property in the company, it was sought to amend the petition.

Wynn-Parry, J., said that Section 353 (5) provided for the winding-up of a company notwithstanding that its name had been struck off the register. The doubt which arose was whether, in view of this, and of the power under Section 352 (1) to make an order declaring the dissolution void, Section 354, dealing with the vesting of property in the Crown, could have any application. In *Re Dixon Ltd* ([1947] Ch. 251) it was held that property which purported to vest did not in fact do so, so that no re-vesting order was required. The learned judge stated that:

> 'Where an order had been made under Section 352 (1) or under Section 353 (6) no question as to *bona vacantia* can arise under Section 354 because of the words in Section 354: ". . . subject and without prejudice to any order which may at any time be made by the Court under the last two foregoing sections. . . .". Section 353 (5) contains no saving provisions similar to those to be found in Section 353 (1) and in Section 353 (6). Section 353 (5) gives no power to wind up a company and for that jurisdiction must be sought under that part of the Act dealing with winding-up. There appears to me to be force in the submission that doubt exists whether a compulsory winding-up order alone amounts to an order "made by the Court under the last two foregoing sections" so as to exclude Section 354. In all the circumstances, it appears desirable that the petition in such cases should follow the form of this amended petition which asks that the name of the company be restored to the register and then that the company be wound up.'

(*Re Cambridge Coffee Room Association Ltd.*) (*Law Times*, January 11th, 1952.)

Sale of Goods: Price

A farmer sold horses to another farmer and delivered them and they were accepted. The seller alleged that the price agreed was £165, but the buyer that it was agreed that he should pay what he thought the animals were worth.

The Second Division of the Court of Session held that this was not a case of no agreement, for the contract had been partly performed. The law assumed that an obligation had been entered into to pay a reasonable price. The other party must, therefore, perform his part of the contract and pay a reasonable price. (*Lennox v. Rennie.*) (*Law Journal*, February 1st, 1952.)

Savings Banks Accounts in Child's Name: Income Tax

A father opened Post Office Savings Bank accounts for each of his two infant unmarried children and bought Defence Bonds in their names. No sum paid in to the former earned interest of more than £5 per annum, though each of the accounts did in total.

Donovan, J., held that 'settlement' within the meaning of Section 21 (9) (*b*) of the Finance Act, 1936, included a transfer by way of absolute gift and thus the deposits and bonds were by way of settlement as understood by the subsection. The income therefrom must, therefore, be considered as the income of the father for tax purposes and the several heads of income added together for the purpose of ascertaining whether the £5 limit had been reached (*Hood-Barrs v. C.I.R.* ([1946], 2 All E.R. 768)) followed. (*Thomas v. Marshall (Inspector of Taxes); Marshall (Inspector of Taxes) v. Thomas.*) (*Law Journal*, January 18th, 1952.)

Bankruptcy of Solicitor

In *Re a Solicitor* (1951 M. No. 234), the interesting point arose as to the vesting of a solicitor's clients' account, in the event of the solicitor's bankruptcy, the Law Society having obtained an order, pursuant to paragraph 5 of Schedule I to the Solicitors Act, 1941, that no payment out of the account be permitted.

Roxburgh, J., held that the moneys in the account were held by the solicitor in trust for another person within the meaning of Section 38 (1) of the Bankruptcy Act, 1914, and so did not vest in the trustee in bankruptcy. He held further that the Court had power to remove him and appoint new trustees of the clients' account in his place. (*Law Times*, January 18th, 1952.)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Budget and Taxation

SIR, – Referring to a leading article under the above head, in your issue dated March 15th, 1952, you state (on page 265):

'. . . as the three taxes, income-tax, profits tax, and excess profits levy are to be cumulative, the total burden may amount to as much as 83 per cent.'

In view of the 15 per cent net profits tax charge on distributions not being charged on that part of the annual profit which is absorbed by the three taxes, the maximum charge will amount to 75 per cent as under:

	%	*Percentage of annual profits* %
Income-tax at 9*s* 6*d* in £ ..		47·5
Profits tax:		
2½ per cent annual profits ..	2·5	
15 per cent distribution ..	7·1	
		9·6
Excess profits levy:		
Maximum		18·0
Maximum charge		75·1
Distributions:		
Gross	47·4	
Less Tax at 9*s* 6*d* in £ ..	22·5	
		24·9
		100·0

I am aware, of course, that a distribution charge is made when profits earned in previous years are distributed in the current year, but this is the withdrawal of a relief obtained in the years when the profits were made and not distributed. It cannot be said to be a charge incurred by profits made in the current year.

Yours faithfully,

Prestwich, Manchester. R. N. BURTON, A.C.A.

SIR, – The following points on the rates of tax proposed by the Budget may be of interest.

1. The *maximum* gross and net dividends which can be paid out of profits are:

(*a*) *Out of standard profit*

74·074074 per cent gross, or 14*s* 9·$\dot{7}\dot{7}$*d* in £.

38·$\dot{8}$8 per cent net or 7*s* 9⅓*d* in £.

(*b*) *Out of excess profits*

29·629629 per cent gross, or 5*s* 11·$\dot{1}\dot{1}$*d* in £.

15·$\dot{5}$5 per cent net or 3*s* 1⅓*d* in £.

Above these figures the taxes payable, plus the net dividend, would exceed 20*s* in the £.

2. The normal rates of tax on retained profits are 50 per cent on standard profits and 80 per cent on excess profits (subject to the overriding maximum of 18 per cent excess profits levy). The *maximum* rates on distributed profits, effective at the above maximum distributions, are:

	Standard *s*	*d*	*Excess* *s*	*d*
Income-tax	9	6	9	6
Profits tax	2	8⅔	1	4⅔
Excess profits levy ..	—		6	0
	12	2⅔	16	10⅔
	61·$\dot{1}\dot{1}$%		84·$\dot{4}\dot{4}$%	

3. The tax liability can be computed as the sum of

50 per cent on standard profits retained;
65 per cent on standard profits distributed (gross);
80 per cent on excess profits retained;
95 per cent on excess profits distributed.

4. The net profits retained can be computed as the sum of

50 per cent on undistributed standard profit;
20 per cent on undistributed excess profit;
Less 17½ per cent on distributed standard profit (gross);
47½ per cent on distributed excess profit.

5. The 18 per cent overriding maximum excess profits levy on total profits only comes into operation when the excess profit is more than one and a half times the standard profit.

Yours faithfully,

London, EC4. A. R. ANDREW, A.C.A.

SIR, – With reference to your article on 'The Budget and Taxation' (March 15th, 1952), I cannot agree with the statement that

. . .'as the three taxes, income-tax, profits tax, and excess profits levy are to be cumulative, the total burden may amount to as much as 83 per cent.'

It is not clear whether the phrase 'total burden' is used to indicate the percentage which the total tax bears to the total profit or the percentage of any increase in profit which would be absorbed by tax.

Disregarding any exceptional circumstances such as distributions out of previous profits giving rise to a distribution charge, or any disallowances, the maximum percentage of total profits which can be absorbed by tax is 75·1 per cent, while the maximum percentage of any increase in profits is 84·4 per cent, calculated as follows:

	Percentage of total profit	*Percentage of increase in profit*
Income-tax	47·5	47·5
Profits tax (part) ..	2·5	2·5
Excess profits levy ..	18·0	30·0
Carried fwd. ..	68·0	80·0

Brought fwd. ..	68·0	80·0
Profits tax (balance):		
15 per cent of gross dividend 47·4 ..	7·1	
15 per cent of gross dividend 29·7 ..		4·4
Total tax ..	75·1	84·4

This would enable the company to pay a dividend, expressed as a percentage, as follows:

Gross dividend ..	47·4	29·7
Less Income-tax ..	22·5	14·1
	24·9	15·6

The first column would apply where a company's profits are in excess of two and a half times the standard profit, while the second column would apply to a slice of profits between one and two and a half times the standard profit.

Yours faithfully,
D. N.

[The above three letters all proceed on the assumption that the company will be so circumspect as to ensure that its total distributions (in the extended profits tax sense) in respect of the accounting year will amount to such a sum as will, when deducted from the agreed profit for that year, leave enough to pay the eventual taxes on that profit, the bulk of which taxes will not be payable until after the lapse of a period varying from 9 to 21 months after the end of the accounting year. In real life many a company will, either deliberately or through inadvertence, so act that its distributions are found to be equal to or exceed the computed profit, leaving some, or perhaps all, of the eventual taxes to be met out of reserves or future receipts. In those cases the total percentage of taxation on the year's profit, exclusive of distribution charge, may be 83 per cent as we said, computed as follows:

	Per cent
Income-tax	47½
Profits tax	17½
Excess profits levy	18
	83 per cent

These may well be what 'D. N.' calls 'exceptional circumstances' but they can still happen. – Editor.]

Pig Farms: System of Accounts

SIR, – I am attempting to instal a standard and fairly simplified system of accounting for a chain of small pig and also produce farms. I would appreciate it if any readers could advise of any text-books on the subject which would be helpful, or of any special systems already in operation.

Yours faithfully,
T. T. C.

Are the Figures Any Use?

SIR, – In your issue of March 1st you reproduce a lecture delivered by Mr J. Clayton to the Birmingham and District Society of Chartered Accountants.

Good rhetorical fun at a lecture is fair enough because there is a chance to attack when the subject is hot. In cold print, however, it stands unqualified to be read as gospel from *The Accountant*; and, frankly, it is a mischievous production.

I hope that I shall meet Mr Clayton before we both forget it. For now, may I quote from two articles of his faith and ask one question? Hear Mr Clayton:

(*a*) 'The primary cause of inflation lies, I believe, in a shortage of capital goods preventing the free flow of new capital into industry and therefore preventing free competition between suppliers which would curtail excessive prices.'

(*b*) 'If I . . . at the end of the covenant period sold it (a motor-car) at a profit of £500, the transaction would not add a single penny to the national income but it would undoubtedly result in a profit to me.'

Having failed to follow the reasoning in (*a*), I have searched among the recognized causes of inflation but cannot find any which resembles Mr Clayton's belief. (In Mr Clayton's case I have assumed it unnecessary to go beyond the recognized causes.) As for (*b*) the price paid by Mr Clayton for his new car undervalues his satisfaction. Alternatively, the satisfaction he admits of making a profit is omitted from the estimates of the national income because of the statistical defect of unrecorded sales.

My question to Mr Clayton is this. A. rents for £1 week a house built in 1938 for £520 (rent calculated at 10 per cent of cost); B. rents for £3 week a similar house built in 1952 for £1,560. Will A. and B., who are neither accountants nor economists, be convinced by Mr Clayton's thesis that their satisfactions in the shape of house-room occupied are in the ratio of 1 to 3?

Yours faithfully,
Dublin. A. PAKENHAM-WALSH.

SIR, – I have read with interest the lecture on the subject named above, printed in your issue dated March 1st, 1952, delivered by Mr J. Clayton, A.C.A., to the Birmingham and District Society of Chartered Accountants, on January 15th, 1952.

I cannot help but feel, however, that Mr Clayton's logic flavours of his first illustration (of 'proving' 2=1) when he attempts to justify the practice of profit and loss ascertainment without providing for material rises and falls in the purchasing power of the monetary unit.

Mr Clayton states that 'replacement cost' accounting is erected on a simple error of fact. He does not, in my opinion, tell us what that simple error is, but he does go on to tell us some fundamental truths which have no bearing on the problem. He tells us that

> 'the majority of us continue to do our accounting in pounds sterling, precisely because that is the currency in which commercial transactions are still carried on in this country'.

He appears, however, to have overlooked the function of the monetary unit, viz. to act in relation to goods and services as a measure and store of value, and a medium of exchange. Its function as a measure has determined its suitability as an accounting symbol,

and like any other measure, to be efficient it must be constant.

One could not expect to measure the difference, say, in the height of a child when 7 years old and when 15 years old, if the measure used at 7 years old had stretched 8 inches by the time the child was 15 years old. Some adjustment must be made.

In the final analysis then, business profit or loss must be measured in terms of goods and services. If the measure has become warped, adjustment must be made when using it, to allow for the extent of the warp. Unless this is done, the measure ceases to be true.

As evidence that business profit or loss can only be measured in terms of goods and services, whether directly or indirectly, I submit the following observations:

(i) When the purchasing power of the monetary unit is falling and proper provision therefor is not made in computing profits, the business will contract as 'profits' are distributed, unless sufficient new capital is introduced.

(ii) Money is only of value to the extent that it can buy goods and services.

I maintain that the accounting symbol should serve the business function. Mr Clayton appears to me to suggest that the business function should be made to serve the accounting symbol

Mr Clayton states that the directors of a company would question the sanity of a banker, or debenture-holder or preference shareholder who demanded payment of interest or repayment of principal in currency of the same purchasing power as that of the original investment. This is very true, as Mr Clayton goes on to illustrate. The investor has loaned his monetary units, and owners of monetary units in times of inflation are losers. But this does not support Mr Clayton's view that 'replacement cost' accounting is erected on a simple error of fact. In the ascertainment of business profits and losses, the monetary unit is adopted *as an accounting symbol* because of its function as a measure of value.

When considering the impact of inflation, Mr Clayton in his example states that the equity shareholders have received additional income ('capital dressed up to look like profit') of £224 million, less tax, to set off against the loss of purchasing power. Presumably Mr Clayton meant that the loss of purchasing power not provided for represents a gain to the shareholders. One cannot say that a loss becomes a gain because it is not provided for.

Mr Clayton, referring to the burden of taxation, suggests that 'replacement cost' accounting boils down to a plea for reduced taxation of the profits of the equity shareholder. Whilst I quite agree that profits for taxation purposes should be computed realistically, I think this applies to all profit statements.

Yours faithfully,

R. N. BURTON, A.C.A.

Prestwich, Manchester.

THE ROYAL COMMISSION

THE INSTITUTE'S MEMORANDUM

In our last issue we reproduced submissions made by the Council of The Institute of Chartered Accountants in England and Wales in its Part B memorandum to the Royal Commission on the Taxation of Profits and Income. We stated at page 307 that on Head No. 21, dealing with rising price levels, the Council had made no submissions but that the whole of the Council's memorandum on that Head would be reproduced in this issue. We now reproduce Head No. 21 below.

HEAD No. 21: RISING PRICE LEVELS

The Problem

(315) In times of price stability the ascertainment of profit by deduction of the historical cost of goods sold from the proceeds of sales, enables the goods concerned to be replaced without recourse to the margin between cost and selling price or to additional finance from external sources. Similarly the apportionment of the cost of fixed assets over the years in which they are in effective use, by means of depreciation charges to profit and loss account, provides funds for the replacement of those assets as and when they cease to be useful. In other words the charging to profit and loss account of the cost of goods sold and of fixed assets consumed enables the financial capacity of the business for handling a given physical volume of goods to be maintained in a long period of price stability without utilization of the profits so ascertained or of new funds from outside the business. Profits retained (less the taxation levied on profits) and new funds from external sources are thus available for financing the development of the business, as distinct from the maintenance of its existing physical capacity.

(316) In times of rises in price levels such as have been experienced in recent years, the use of the cost basis of profit ascertainment does not enable either the physical volume of stocks carried, or the fixed assets on which the output of the business depends, to be maintained without utilizing profits or new funds. With the high rates of taxation ruling in the United Kingdom the margin of net profits available to meet the effects of rises in price levels is inadequate and great difficulty is met in conserving the physical capacity of businesses without recourse to additional finance from external sources; and the obtaining of such finance may present serious difficulties, particularly in the case of the smaller and growing businesses.

(317) The combined effect of the rise in price levels and the oppressive burden of taxation has led a number of business men and their advisers to question the validity of the cost basis of profit ascertainment

hitherto generally followed by industrial and commercial undertakings. Various suggestions have been made for changes in the basis of accounting. Some accountants suggest the continuance of the calculation of depreciation charges in respect of fixed assets by reference to historical cost, with an additional charge to profit and loss account in order to take into account the change in the value of money since the date of purchase; others advocate the writing up of fixed assets (either by reference to price indices or by reference to replacement costs) so that depreciation charges would be based on current values; and various other proposals have been made, all having the same underlying purpose of charging against revenue the consumption of fixed assets at current or replacement values. Similarly, various proposals are made for the same purpose in relation to stock in trade.

(318) Whatever may be the correct view on this debatable matter, the principle of historical cost must, unless and until some satisfactory alternative is available, continue of necessity to be the basis on which annual accounts are prepared for shareholders. The results shown by accounts prepared on the principle of historical cost, for the information of proprietors, are however not necessarily appropriate for use, without modification, for other purposes. When considering dividend policy, the directors of a company have the right to place to reserve such amounts as they consider to be necessary to maintain the physical capacity of the business but the ability to retain sufficient profits is seriously restricted by the basis and scale of United Kingdom taxation. The Exchequer takes the major share of the profits of any business and the view may be taken that it is contrary to the national interests for the Exchequer to draw its full share in cash, regardless of whether that cash is available, leaving the proprietors to provide out of their minority share not only reasonable dividends but also the amounts necessary for the maintenance of the business. Taking a long view, the payment of reasonable dividends on equity capital is essential properly to remunerate investors and to attract the further capital which it may be necessary to obtain from time to time.

(319) It can therefore be argued that the availability of profit should be a consideration not only in determining the distributions to proprietors but also in determining the payment of United Kingdom taxation; in other words that there should be some form of relief in respect of retained profits. In its memorandum to the Tucker Committee the Council outlined briefly the various suggestions which had been made for giving appropriate relief and these fell into three broad types, namely, taxation relief on retained profits, the adaptation of initial allowances, and fixed asset replacement allowances.

Relief on Retained Profits

(320) The giving of taxation relief on all retained profits would give rise to considerable practical difficulties, particularly in relation to businesses carried on by individuals and partnerships. These difficulties led to the view that it might be necessary to relate the relief to expenditure on fixed assets instead of to retained profits as such in which case the relief would become similar in principle to the other types mentioned in the memorandum to the Tucker Committee, namely, the adaptation of initial allowances, and fixed asset replacement allowances.

Initial Allowances

(321) Initial allowances were first introduced by the Income Tax Act, 1945. The initial allowance, as amended by the Finance Act, 1949, is 40 per cent of the cost of plant and machinery and 10 per cent of the cost of construction of certain industrial buildings. These allowances are taken into account in calculating future depreciation allowances and the effect is therefore to grant a substantial allowance at the commencement of the life of an asset whilst in subsequent years allowances are far smaller than the depreciation properly chargeable in those years. In total there is no increase in the depreciation allowance as it is still restricted to the cost of the asset, the initial allowance being withdrawn gradually through the reduced depreciation allowances in subsequent years.

(322) In the case of businesses which obtain double-taxation relief the initial allowances give rise to anomalies in the calculation of relief and these anomalies are sometimes a serious disadvantage to the business concerned. Another feature of the existing law relating to initial allowances is that the deduction is allowed not in the year in which the capital expenditure is incurred but in the year of assessment based on the accounting year in which the expenditure was incurred.

(323) The Council's memorandum to the Tucker Committee included the following observations in regard to initial allowances:

> 'During the period of re-equipment and expansion which immediately followed the war, the total temporary reduction of tax by reason of initial allowances must have represented a very substantial temporary saving to industry and has undoubtedly been of considerable financial assistance. The percentage rates of the initial allowances are, however, subject to variation from year to year according to government policy and there is no certainty that they will be continued indefinitely on a material scale.'

(324) The Tucker Committee, for reasons explained in its report, took the view that initial allowances were a satisfactory method of giving relief but almost simultaneously with the publication of the report of the Tucker Committee the then Chancellor of the Exchequer announced the cessation of initial allowances as from April 6th, 1952. The Council would not urge the reintroduction of initial allowances (unless it is desired as a matter of fiscal policy – as in 1945 – to give financial assistance for the financing of development and expansion, apart from any question of price level) but if the Royal Commission should decide to recommend the use of initial allowances, following the recommendations of the Tucker Committee, the Council would not wish to add to what is stated in the memorandum to the Tucker Committee.

Replacement Allowances by Price Level Adjustment

(325) The third type of relief dealt with by the Council in its memorandum to the Tucker Committee consists of the introduction of fixed asset replacement allowances, on a basis similar to that adopted in certain continental countries, notably Belgium and France, where businesses have been encouraged to write up their fixed assets, the object being to express in terms of francs of uniform purchasing power the cost of fixed assets acquired in different years. Businesses in those countries have been permitted to use the written-

up amounts in calculating depreciation for taxation purposes and the effect is therefore that taxation allowances for depreciation of fixed assets are related broadly to their current replacement cost. The proposal for fixed asset replacement allowances in the United Kingdom would be on similar lines but adapted so that profits for taxation purposes would first be ascertained after charging depreciation on historical cost and would then be reduced by a supplemental annual allowance. This supplemental allowance would vary according to changes in price levels and would be conditional upon an equivalent amount of profit being retained in capital reserve until replacement is effected.

(326) There are various methods by which such supplemental annual allowances could be calculated. They involve complexities and in all businesses whose records of fixed assets are not fully detailed the difficulties might be considerable. If retention in capital reserve were made a condition, as suggested in the preceding paragraph, the safeguards to ensure retention would present further complications, particularly in the case of individuals and partnerships. Apart from these complexities, price levels of future years cannot be foreseen and it is the price at the time of replacement and the availability of funds at that date which are of material importance.

Summary

(327) It will be evident from the foregoing paragraphs that the various suggestions which have been made for giving relief in respect of rising price levels, would involve the need for safeguards against the giving of relief on amounts in excess of what it is necessary to retain in the business. Moreover many suggested methods would involve complexities and considerable work in recording the relief given year by year and in considering the accumulated relief in relation to the expenditure incurred by the business for the purposes for which the relief was given. These practical difficulties are serious and it may be that no wholly satisfactory system for annual relief could be devised. Moreover, the Council recognizes that arguments can be put forward on behalf of other classes of taxpayer, such as those having incomes of fixed monetary amount, who also have a financial problem in times of rising price levels.

(328) If it were decided to give some measure of relief to businesses in respect of the financial effects of rises in price levels, the method which the Council would favour for doing so would be to give relief on retained profits as such, provided it is possible to devise a satisfactory system. If however the practical difficulties which arise in relation to sole traders and partnerships were considered to be insuperable, an alternative arrangement would be:

(*a*) In the case of corporate bodies, to give some measure of relief on retained profits.

(*b*) In the case of sole traders and partnerships, to raise the level of income on which earned income relief is granted and either to allow for sur-tax purposes the deduction of the earned income relief allowed for income-tax purposes, or to charge sur-tax on earned income at a lower rate than that charged on unearned income. (This follows the submissions made in paragraph 177 of Head No. 9, independently of the question of rising price levels in relation to business profits.)

(329) If the Royal Commission is not able to recommend either relief on retained profits as such, or the alternative arrangement suggested in the preceding paragraph, the Council wishes to put forward a new proposal (dealt with in paragraphs 331 to 335 below) for replacement allowances in respect of fixed assets; but the Council is not able to make any specific proposal for general relief in respect of profits retained to finance stock in trade at increasing price levels, as practical difficulties would arise in attempting to legislate generally for such relief.

(330) The taxation legislation does not contain any special rules relating to the valuation of stock in trade. In its memorandum to the Tucker Committee the Council made the following submissions on this subject:

(*a*) Owing to the varying circumstances of different businesses, no particular basis of valuation is suitable for all cases and it is therefore not desirable to attempt to frame special income-tax rules for the valuation of trading stocks.

(*b*) The method of valuation should be that adopted by the business, provided it is applied consistently from period to period and is based on accepted accounting principles.

A taxpayer may however wish to change the basis previously adopted for his business and the Council considers that the Board of Referees should be empowered to approve applications, either by particular businesses or on behalf of a number of businesses engaged in the same trade, for any appropriate change in the basis of valuation of stock in trade. As an indication of the procedure which might be adopted to enable such applications to be made, attention is drawn to paragraph 8 of Part I of the Sixth Schedule to the Finance Act, 1949.

Proposed Replacement Allowances for Fixed Assets

(331) The new proposal mentioned in paragraph 329 for replacement allowances in respect of fixed assets, is based on one of the methods which it is already permissible to use for income-tax purposes. Some taxpayers do not claim annual depreciation allowances; instead they adopt what is known as the 'renewals method'. Where this method is followed there are no amortisation allowances; but when renewal takes place the full cost of renewal is allowed and therefore the taxpayer automatically obtains relief in respect of the higher cost of replacement where price levels have risen since the original asset was acquired. (If price levels fall and the cost of renewal is less than the original cost, then only the cost of renewal is allowed.) Similarly on a second renewal any further rise in price level is again effectively allowed. The proposal which the Council now has to make would bring to all taxpayers the advantage which is now obtained by those taxpayers who adopt the renewals method, namely, the advantage of obtaining automatic relief in respect of the higher cost of replacement where price levels have risen, while at the same time giving appropriate annual allowances.

(332) The Council's proposal, which is an adaptation of the existing renewals method, is as follows:

(*a*) When replacement of an asset takes place, to permit as a deduction *for taxation purposes*, in the year of assessment in which the expenditure

is incurred, an amount equivalent to the excess of the replacement cost over the aggregate of the proceeds of realization of the old asset and the annual allowances already allowed thereon. Where a replacement allowance is made in this way the future annual amortisation charges *for taxation purposes* would be calculated on the cost of the old asset. Similarly on a subsequent replacement it should be permissible to deduct *for taxation purposes* a replacement allowance representing the excess of the replacement cost over the aggregate of the proceeds of realization of the replaced asset and the annual allowances already allowed thereon; and the future annual amortisation charges *for taxation purposes* would then be calculated on the cost of the original asset and not on the cost of the one which has been replaced.

(*b*) Where the replacement involves an element of addition or improvement, or the new asset is not of exactly the same kind as the one which has been replaced, the amount of replacement cost for the purpose of (*a*) above would be a matter for agreement with the Inland Revenue as is now the case where the renewals method is adopted; and it would be essential for the satisfactory working of the relief for the Inland Revenue to take the same broad view on this matter as is now taken in connexion with the renewals method and as was eventually taken in connexion with obsolescence claims (see, for example, the statement made on December 9th, 1931, to the Committee of the Association of British Chambers of Commerce by the then chairman of the Board of Inland Revenue).

(*c*) In the event of the replacement allowance, calculated as in (*a*) above, exceeding the chargeable profits for the year of assessment (as may well happen in the case of businesses such as shipping where large expenditure on fixed assets may take place at infrequent intervals) the excess should be allowed as a carry-forward against future profits or, at the option of the taxpayer, wholly or partly against assessments for previous years, repayment being made accordingly.

(333) An example is given [next col. – Ed.] in order to illustrate the manner in which the proposal in (*a*) of the preceding paragraph would operate. It is clear from the example that over the life of any particular asset the replacement allowance plus the annual allowances in respect of that asset would not exceed the expenditure incurred in acquiring the asset. The allowances in total would therefore not be greater than those already available by annual amortisation allowances; but the timing and spreading of the allowances would be different from the existing position, as the effect of the proposal is that replacement allowances would be obtained at the times when replacements take place and therefore when the allowances are needed to provide funds. The proposal would require no special safeguards for the Inland Revenue.

(334) The example also shows that the proposal in (*a*) of paragraph 332 has the effect of combining the replacement allowance on the new asset with the balancing charge or allowance on the old asset. This appears to be the simplest method of operation, but it may be that in some circumstances this combination would give rise to practical difficulties which could be overcome by separating the two aspects. Thus in statement No. 1 of the illustration the first replacement allowance is £30. The alternative method would be to give a replacement allowance of £50 (new cost £150 less original cost £100) and make a balancing charge of £20 on the old asset.

(335) The Council recognizes that the proposal in (*a*) of paragraph 332 would have the effect of distorting the relationship between profits for taxation purposes and commercially ascertained profits, as the replacement allowances would not be charged in the accounts and the subsequent annual allowances for taxation purposes would be less than the depreciation charged in the accounts. For taxation purposes therefore the proposal would require some modification of the submission in items (*a*) and (*c*) of paragraph 130 of Head No. 7; and for accounting purposes it would be necessary to make an appropriate adjustment or give an appropriate indication in the accounts where the charge for taxation has been affected materially by replacement allowances or by reduced annual allowances.

ILLUSTRATION OF PROPOSED REPLACEMENT ALLOWANCES FOR FIXED ASSETS

Statement No. 1

	Cost of asset	Proceeds on Sale	TAXATION ALLOWANCES — Wear and tear: Amount on which allowed	Wear and tear: Allowances given	Replacement allowances			Balancing charge or allowance
	£	£	£	£	£ †	£ †	£	£
Original asset ..	100		100					
*Annual allowances ..				90		90		
Proceeds ..		30				30		
						120		
1st replacement	150				150			
Replacement allowance						30	30	
					£150	£150		
Future annual allowances on			100					
*Annual allowances				80		80		
Proceeds: Nil ..		—				—		
						80		
2nd replacement	200				200			
Replacement allowance						120	120	
					£200	£200		
Future annual allowances on			100					
*Annual allowances				70				
Proceeds: no replacement ..		50		50				
Balancing charge			20					B.C. 20
			£120	£120				
							£150	£20
Total expended	£450							
Less Proceeds	80	£80						

Net expended .. £370 against which the taxation allowances have been:

	£
Annual allowances £90+£80+£70= ..	240
Replacement allowances	150
	390
Less Final balancing charge	20
	£370

* These are assumed figures to represent the aggregate allowances given over the years from acquisition to disposal of each asset.

† These two columns show only the computation. The third column shows the replacement allowances actually made.

Moreover, it can be demonstrated that the allowances are not only the same in the aggregate as the net expenditure but also that they are in fact all given at the times when they are needed. This is shown in the next statement, all the figures being taken from the foregoing computation.

Statement No. 2

TAXATION ALLOWANCES POSITION AT TIME OF EACH REPLACEMENT

	£	£
Original asset		
Cost	100	
Proceeds on disposal	30	
	70	
1st replacement		
Cost	150	220
At this point the taxation allowances have been:		
Annual allowances on the original ..	90	
Replacement allowance	30	120
Leaving for future annual allowances ..		100
2nd replacement		
Cost	200	
No proceeds on sale of replaced asset.. ..	—	200
		300
At this point the taxation allowances have been:		
Annual allowances on first replacement asset	80	
Replacement allowance	120	200
again leaving for future annual allowances		100
Final disposal		
On sale of the second replacement asset without further replacement the position of the taxation allowances is:		
Annual allowances on second replacement asset		70
		30
Proceeds of sale		50
Balancing charge to cover excess allowances		£20

It can also be demonstrated that allowances given in this manner will enable the funds to be available to meet replacement costs, provided that appropriate transfers are made to capital reserve in the books of the business. This is shown in the next statement, the figures again being taken from the computation in Statement No. 1. Whether the funds will all be available in *cash* will however depend on the financial management of the business.

* Assumed that an accurate forecast had been made of the increase in replacement cost from £100 to £150.

† Assumed that an accurate forecast had been made of the increase in replacement cost from £150 to £200=£50 but that the surplus of £20 on disposal of the original asset had been transferred to capital reserve leaving only £30 to be provided out of profits.

Statement No. 3

AVAILABILITY OF FUNDS FOR EACH REPLACEMENT
(Income-tax taken at 10s for simplicity of calculation)

	£	£
For 1st replacement		
Accumulated depreciation on the cost of original asset (tax free)		90
*Transfers to capital reserve from profits ..	50	
Deduct Tax, no allowance being given ..	25	
		25
Cash proceeds on sale of original asset ..		30
Taxation relief on £30 replacement allowance		15
Available funds		160
Cost of 1st replacement		150
Excess in hand		£10

(This excess is due to the surplus on sale of the original asset. The book surplus is £20, but £10 of this is taken in tax in computing the replacement allowance. In other words, the transfers to capital reserve need have been only £30 instead of £50.)

	£	£
For 2nd replacement (*brought down*)		10
Accumulated depreciation on cost of the 1st replacement, £150, say..	120	
Allowed for taxation	80	80
	40	
Deduct Tax charged on excess	20	
		20
Deficiency on disposal (£150 cost less £120 depreciation) provided from current profits	30	
Deduct Tax	15	
		15
†Transfers to capital reserve from profits ..	30	
Deduct Tax	15	
		15
Taxation relief on £120 replacement allowance		60
		200
Cost of 2nd replacement		200
Final disposal	£	£
After the 2nd replacement there is no further replacement. The position on final disposal is as follows:		
Accumulated depreciation on cost of the 2nd replacement, £200, say	140	
Allowed for taxation	70	70
	70	
Deduct Tax charged on excess	35	
		35
Sales proceeds..		50
Deficiency on disposal (£200 cost less £140 depreciation and £50 proceeds) provided from current profits	10	
Deduct Tax	5	
		5
		160
Balancing charge on £20		10
Funds available		£150
This sum represents:	£	£
Original capital		100
Capital reserve	100	
Less Taxation thereon, since it is no longer invested in fixed assets which attract relief	50	
		50
		£150

EAST ANGLIAN SOCIETY OF CHARTERED ACCOUNTANTS

DINNER AND DANCE IN NORWICH

The East Anglian Society of Chartered Accountants held their annual dinner at *The Samson and Hercules House*, Norwich, on Friday, March 21st, 1952. Mr A. F. Kent, F.C.A., J.P., President of the Society, Mrs Kent, Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mrs Boyce, received the 210 members and guests who attended.

Among those present were Mr J. Millard Tucker, Q.C., and Mrs Tucker; Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., and Lady Howitt; Councillor E. J. S. Hinde, M.A., Lord Mayor of Norwich, and the Lady Mayoress; Mr C. Radbourne, H.M. Principal Inspector of Taxes, and Mrs Radbourne; and

Messrs A. H. Allman, F.A.I. (*Chairman, East Anglian Branch of the Chartered Auctioneers and Estate Agents Institute*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*), and Mrs Broome; W. H. C. Chapman, A.S.A.A. (*H.M. Inspector of Taxes, Norwich 2nd District*), and Mrs Chapman; G. D. F. Dillon, B.A., F.C.A. (*President, London and District Society of Chartered Accountants*), and Mrs Dillon; W. W. Elven, F.S.A.A., F.I.M.T.A. (*President, East Anglian Society of Incorporated Accountants*), and Mrs Elven; His Honour Judge Carey Evans and Mrs Carey Evans; Mr D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*), and Mrs Hadley.

Messrs A. Jolly, F.C.A., J.P. (*President, South Eastern Society of Chartered Accountants*), and Mrs Jolly; H. N. Lacey, F.C.I.I. (*President, Norwich Insurance Institute*), and Mrs Lacey; A. S. MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants in England and Wales*); H. J. Stannard (*President, Norwich and District Institute of Bankers*); B. D. Storey, O.B.E. (*Town Clerk of the City of Norwich*), and Mrs Storey; J. L. Thorpe (*H.M. Inspector of Taxes, Norwich 3rd District*) and Mrs Thorpe; C. W. Thurston, L.R.I.B.A., F.R.I.C.S. (*President, Norfolk and Norwich Association of Architects*), and Mrs Thurston.

Mr F. R. D. Walter (*Official Receiver in Bankruptcy, Norwich District*) and Mrs Walter; Canon J. Waring, M.A., and Mrs Waring; Messrs C. M. Williams, F.C.A. (*President, South Wales Society of Chartered Accountants*), and Mrs Williams; T. P. Wiltshire, LL.B.(LOND.) (*President, Norfolk and Norwich Law Society*), and Mrs Wiltshire; L. Woolley (*H.M. Inspector of Taxes, Norwich 1st District*) and Mrs Woolley; G. C. Youngs, F.C.A. (*Vice-President, East Anglian Society of Chartered Accountants*) and Mrs Youngs.

A Very Fine Web

Mr J. Millard Tucker, Q.C., proposing the toast of 'The Institute of Chartered Accountants in England and Wales', described accountants as the oil which lubricated the machinery of industry. They did not actually produce anything but they did spin a very fine web for themselves (laughter), and without them he did not know what many of the unfortunate tax-payers in this country would do. Chartered accountants frequently provided him with the ammunition with which he bombarded the Board of Inland Revenue in his daily life.

'So far as the first committee over which I had the honour to preside was concerned,' he went on, 'it is quite true that the memorandum which was given to us for our guidance by the Institute of Chartered Accountants was a particularly fine piece of work. In fact, if you read the Tucker Report it consists almost of a verbatim copy of the memorandum.' (Laughter.)

Responding to the toast, Mr Boyce said:

'Last week the Chancellor of the Exchequer opened his Budget and we know now what is expected of us. One of the problems with which the Government is faced is to bring home to the ordinary man in the street the stark fact that unless inflation is checked not only is his standard of living in jeopardy but also the social services will undergo drastic cuts. To many millions of people in this country, inflation means nothing. Up to the present, the increase in the cost of necessities of life has been, to a large extent, taken care of by increases in wages, but this vicious spiral cannot continue indefinitely. Already the high costs of production are having an adverse effect on our export trade; there are definite signs of price resistance abroad and if this old country of ours is to survive, every possible effort must be made by all, management and work-people alike, to produce goods at a price which our customers abroad are prepared to pay.'

Need for Restraint in Spending

'Exports, and exports in large quantities, are vital to obtain the wherewithal to pay for the imports of raw materials and the necessities of life we so urgently need, and this can only be accomplished by a full realization of the position by every man and woman in this country. No one wishes to see our standard of living diminish but the maintenance of that standard can only be achieved by hard work, cutting out waste in labour, materials and time, and amongst other things, restraint in spending – particularly on unnecessary things.

'We, as accountants, have many opportunities of assisting management by preparing statistical information in such a form that it gives a pointer to directions in which extravagances can be eliminated and more control exercised over general administration.'

Student Societies' Lectures

Mr Boyce mentioned that complaints had been made by some of the student societies that the lectures provided by them were not receiving the support they deserved, and he appealed to all articled clerks not to miss the opportunity of attending, even though the subject-matter might not appeal to them as one with an immediate bearing on their examination work.

The toast of 'The City of Norwich' was proposed by Sir Harold Howitt who spoke of its status as a grand old city, an industrial centre and the hub of one of the most enterprising of our agricultural communities – the real agriculture, not the sur-tax kind.

The Lord Mayor, in reply, paid this tribute to the accountancy profession: 'I am sure it is today quite impossible to try to carry on the accountancy side of one's own business. Whether you are a merchant or a manufacturer you must have an accountant.'

Mr G. G. Youngs, F.C.A., Vice-President of the Society, who toasted 'The Guests', in a witty speech, told Mr Millard Tucker that if the Royal Commission could ease the burden of the tax code 'any crumbs would be gladly received'. Mr C. Radbourne responded.

Dancing followed until midnight.

INCORPORATED ACCOUNTANTS OF SOUTH WALES AND MONMOUTHSHIRE

ANNUAL DINNER IN CARDIFF

The annual dinner of the Incorporated Accountants' South Wales and Monmouthshire District Society was held at *The Park Hotel*, Cardiff, on Friday, March 21st, 1952. The President of the Society, Mr W. J. Fooks, F.S.A.A., was in the chair, and with Mrs Fooks, Mr C. P. Barrowcliff, F.S.A.A., President of the Society of Incorporated Accountants and Auditors, and Mrs Barrowcliff, received the 237 members and guests who attended.

Among the guests were Alderman Robert Bevan, J.P., Lord Mayor of Cardiff, and the Lady Mayoress; Mr I. J. Pitman, M.P.; Mr George Thomas, M.P.; Mr G. C. Diamond, M.A.; and

Sir Frederick J. Alban, C.B.E., J.P., F.S.A.A. (*Past President, Society of Incorporated Accountants*); and Lady Alban; Messrs R. Wilson Bartlett, D.L., J.P., F.S.A.A. (*Past President, Society of Incorporated Accountants and Auditors*); C. E. Black, F.A.C.C.A. (*President, Association of Certified and Corporate Accountants, South Wales and Monmouthshire Branch*); Alderman C. W. Bridges, J.P. (*Mayor of Merthyr*), and Mrs Bridges; Mr I. A. F. Craig, O.B.E. (*Secretary, Society of Incorporated Accountants and Auditors*) and Mrs Craig; Major Douglas A. Duncan, T.D. (*President, Cardiff Chamber of Trade*); Messrs R. F. Emmerson, F.S.A.A. (*President, West of England District Society of Incorporated Accountants*); E. Gavine (*District Inspector of Taxes, Cardiff*).

Sir James German, K.B.E., J.P. (*President, Cardiff Chamber of Commerce*); Messrs F. W. R. Harrison, J.P., B.SC. (*Principal, Newport Technical College*); F. Norman Harry (*Chairman, Cardiff Stock Exchange*); Dr A. Harvey, PH.D., B.SC. (*Principal, Cardiff College of Technology and Commerce*); Mr L. Howles (*Chairman, South Wales Electricity Board*); Councillor Percy Jones (*Deputy Mayor of Newport*) and Mrs Percy Jones; Messrs E. S. Porter, F.S.A.A. (*President, Swansea and South West Wales District Society of Incorporated Accountants*); F. D. Newsum, F.C.I.I. (*President, Insurance Institute of Cardiff*).

Messrs D. M. Rees (*Chairman, National Coal Board, South Western Division*); J. C. C. Rees, F.C.I.S. (*President, Chartered Institute of Secretaries, South Wales and Monmouthshire Branch*); Gilbert D. Shepherd, M.B.E., J.P., F.C.A. (*Past President, Institute of Chartered Accountants in England and Wales*); R. S. Snelling, J.P. (*Deputy Chairman, Wales Gas Board*); Alderman the Rev. Degwel Thomas, J.P. (*Chairman, Glamorgan County Council*); Messrs Robert M. Wignall (*President, Institute of Bankers, Cardiff and District Centre*); David Young, F.C.W.A. (*President, Institute of Cost and Works Accountants, South Wales and Monmouthshire Branch*).

The toast of 'The Society of Incorporated Accountants and Auditors' was proposed by Mr I. J. Pitman, M.P., who said that the Society had a real duty to perform to get people thinking on the right lines financially. Accountancy was a most difficult and involved subject for the average man in the street. What was required was a new nomenclature to explain accountancy.

Replying to the toast, Mr C. P. Barrowcliff spoke at length on the question of the accounting implications of the changing price level. On this subject he was of the opinion that our existing conventions were wrong, and that our profit measurement must be adjusted.

Improving Techniques of the Profession

He continued:

'It is a great honour, as well as a great responsibility, to be President of the Society of Incorporated Accountants numbering over 9,000 members scattered all over the world. As our members in this corner of Wales are banded together into a district society to further the cause of accountancy and the work of the Society to that end, so members are banded together either in branches or district societies in places as far distant as Bombay, Bengal, Johannesburg, Cape Town, Durban, Melbourne, Sydney and Montreal, to say nothing of the twenty-one other such societies in England and the branches in Scotland and Eire.

'Its valuable work is proceeding all the time in these various places to raise the standards as well as to improve the techniques of the profession, to meet the ever-increasing demands made upon it. Demands which, starting with the somewhat elementary account-keeping services, extend now to a very wide range of highly technical services, all of which have an important influence on and a vital place in the economy of the country.'

Government Expenditure

Of the present heavy taxation, Mr Barrowcliff said:

'One way I suggest we could expect some little relief would be a reduction in the colossal government expenditure; it is hardly conceivable that people will say that there is little or no room for some economy in an expenditure of over £4,000 million. There must be many avenues in the administration where considerable economies could be effected if *some independent authority* existed to check up on these different avenues of spending. This would have nothing to do with the policies of the Government but only with efficient and economical administration of those policies. Extravagance in administration is not another word for efficiency – probably very much the reverse.

'It is our duty to call upon the Government to administer economically and to ruthlessly cut out all waste, extravagance and needless expenditure – this would certainly bring some taxation relief to business; business enterprise cannot stand the present weight of taxation.' (Hear, hear.)

Excess Profits Tax

'I regret very much the introduction of excess profits tax by the Chancellor. The Society submitted a memorandum on this subject to the Chancellor – which was most ably prepared by my friend, Stuart Allen; we advised against the levy and demonstrated – I think conclusively – that it would not provide really any material extra revenue. In addition, this sort of tax leads to extravagance and is invariably unfair in its incidence.' (Applause.)

The toast of 'Prosperity to South Wales and Monmouthshire' was proposed by the Vice-President of the Society, Mr A. Salter, F.S.A.A., and acknowledged by the Lord Mayor of Cardiff and Mr George Thomas, M.P.

The toast of 'Our Guests' was proposed by the President, Mr W. J. Fooks, who paid a high tribute to the work of Mr Tudor Davies, F.S.A.A., Hon. Secretary of the District Society.

Mr G. C. Diamond, M.A., responded on behalf of the guests, and also proposed a toast to the President, to which Mr Fooks replied.

IN PARLIAMENT

Census of Production and Distribution

Mr GERALD NABARRO asked the President of the Board of Trade how many census of production and census of distribution forms are to be sent out by his department in 1952; what is the average number of questions to be answered on each form; and what steps he is taking to simplify the questionnaire, consolidate questions, and economize in expenditure in the statistical department of his department.

Mr SIDNEY MARSHALL asked the President of the Board of Trade whether, in connexion with the census of production for 1951 applying to the leather goods trade, he will in future adopt a more simplified form than the present No. 172.

Mr P. THORNEYCROFT: In 1952, no census of distribution forms will be issued. Census of production forms, which were normally sent out in January, will total about 275,000. Nearly 200,000 of these were sent to the smaller firms, and ask for only very limited information. The number of questions to be answered cannot readily be expressed as an average, but I will send my hon. friend the Member for Kidderminster (Mr Nabarro) a typical census of production form.

I am carefully considering the future programme of the census. In the census of production to be taken in 1953, which was described in the *Board of Trade Journal* of December 29th, 1951, sampling will be introduced for the first time and the questions will be fewer than in any previous census.

Mr NABARRO: Is my right hon. friend aware that I have here a census of production form with 12 pages and 250 questions on it? If he sends out 275,000 of these forms it is going to result in him receiving more than 65 million answers? What would my right hon. friend be doing with 65 million answers? Could he abate this extravaganza and introduce some economy into the statistical departments?

Mr THORNEYCROFT: The number of answers required varies between firm and firm and industry and industry. I quite agree that the total number added together would be rather difficult to deal with, but in principle this census of production provides useful information and it is on the whole better for governments to proceed with some knowledge of the facts.

Hansard, Mar. 20th, 1952. Oral Answers, Col. 2533.

Personal Incomes

Mr CHETWYND asked the Chancellor of the Exchequer the number of taxpayers in the income group £135–£500.

Mr BOYD-CARPENTER: On the level of incomes now ruling the number of persons with incomes between £135–£500 (whether actually liable to tax or not) is about 14¼ million.

Hansard, March 21st, 1952. Written Answers, Col. 252.

Taxpayers: Reliefs and Incomes

Mr CHETWYND asked the Chancellor of the Exchequer what amount of the £180 million loss to the Treasury by income-tax reliefs is accounted for by the exemption of two million people from tax liability and by the relief to those in the following income groups: £500–£700, £700–£1,000, £1,000–£2,000 and £2,000 and over, giving separate figures for earned and unearned income.

Mr R. A. BUTLER: The total income-tax relief to the two million taxpayers exempted from liability altogether is estimated at £5 million this year and £6 million in a full year.

The table below shows the estimated total income-tax relief given to the taxpayers in each income range. It is not possible to give separate figures for earned income and investment income as very often a taxpayer has both forms of income.

ESTIMATED INCOME TAX RELIEF UNDER THE BUDGET

Range of Income	This year £ million	Full year £ million
£135–£500	66	83
£500–£700	45	57
£700–£1,000	30	38
£1,000–£2,000	29	37
Over £2,000	10	13
Total	180	228

Mr CHETWYND asked the Chancellor of the Exchequer whether he will state the number of taxpayers in the following income groups: £500–£700, £700–£1,000, £1,000–£2,000 and £2,000 and over, giving separate figures for earned and unearned income.

Mr R. A. BUTLER: The table below shows the number of taxpayers who are estimated to be in the specified income groups at the present time. It is not possible to give separate figures for earned and unearned incomes as a taxpayer often has both types of income.

Range of Income	*Number of Taxpayers Millions*
£500–£700	3·47
£700–£1,000	1·38
£1,000–£2,000	·95
Over £2,000	·27

Hansard, March 18th, 1952. Written Answers, Col. 190.

Income Tax

Mr SWINGLER asked the Chancellor of the Exchequer how many persons in receipt of incomes were exempt from paying income-tax at the latest date, prior to his Budget statement, for which figures are available.

Mr BOYD-CARPENTER: The hon. Member will find information for years up to 1950–51 in Table 21 of the 94th Report of the Commissioners of Inland Revenue.

There has been a big rise in personal incomes since 1950–51, and, on the level of incomes now ruling, it is estimated that, with the pre-Budget rates of allowances, the number of people with incomes above the income-tax exemption limit of £135 who would not be liable to tax would be 4¼ million.

No information is available about people with incomes below the income-tax exemption limit.

Hansard, March 17th, 1952. Written Answers, Col. 180.

NOTES AND NOTICES

Personal

MESSRS BEAVIS, WALKER & CO, Chartered Accountants, of 53 New Broad Street, London, EC2, announce that Mr WILLIAM THOMAS WALKER, F.C.A., is retiring on March 31st, 1952, after fifty years' practice. As from that date the practice will be continued under the same name by Mr E. FLETCHER TREW, F.C.A., who has been in partnership with Mr WALKER for the past twenty-five years, and Mr E. LESLIE PHILLIPS, A.C.A., who served his articles with the firm after the 1914—18 war and who is joining Mr TREW in partnership on April 1st, 1952

MESSRS GILBERT ALLEN & CO, Chartered Accountants, of 8 Drapers' Gardens, London, EC2, announce that Mr A. W. ALLEN, A.C.A., has become a partner in the firm.

MESSRS CRANE, CHRISTMAS & CO, Chartered Accountants, of 46–47 London Wall, London, EC2, announce with profound regret the sudden death, on March 15th, 1952, of Mr ERNEST WILLIAM LANGFORD, F.C.A., who had been a partner in the firm since 1936. The firm will be continued under the same name.

MESSRS ALFRED FISHER & CO, Chartered Accountants, of 14 Gloucester Place, Portman Square, W1, announce that Mr G. FINLAY, A.C.A., has become a partner and the name of the firm is now FISHER & FINLAY.

MESSRS F. HUNTER, GREGORY & LORD, Chartered Accountants, of Irwell Terrace, Bacup, Lancashire, announce with regret the death, on March 18th last, of their senior partner, Mr JOHN ROBERTS LORD, F.C.A. The practice will be continued under the same name by the remaining partner.

MESSRS JAMES TRAIN & CO, Chartered Accountants, 1 Ripple Road, Barking, Essex, announce that they have opened an office at 9 Ironmonger Lane, EC2 and that Mr DENIS F. OAKES, A.C.A., has been admitted a partner.

Professional Notes

Industrial & Commercial Finance Corporation Ltd announce that Mr Guy M. D. Drummond, A.C.A., has been appointed manager of their new branch which has recently been opened at India House, 73 Whitworth Street, Manchester, 1.

Marks & Spencer Ltd announce that Mr B. W. Goodman, A.C.A., the secretary of the firm, has been appointed a director. He will continue to hold the office of secretary.

Solicitors' Accounts

ACCOUNTANT'S CERTIFICATE RULES, 1946

Some 900 solicitors have had to be reminded by the Law Society of their obligations under the Accountant's Certificate Rules, 1946. Making this statement, the *Law Society's Gazette* expresses the hope that members of the Society will take care to deliver their accountant's certificates as soon as they are received from their accountants, and will not delay doing so until they apply for the renewal of their practising certificates.

The *Gazette* also calls the attention of members of the Society to the following points:

'Every address given as a place of business by a solicitor on his declaration for his practising certificate should be covered by an accountant's certificate, whether or not separate books of account are kept at each address, unless the solicitor states in his declaration to obtain his practising certificates that, at a particular address, he is either exempt from complying with the rules or has not complied with them because he has not held or received clients' money.

'A solicitor who retires from active practice must deliver an accountant's certificate covering the accounting period up to the date of his retirement or up to the date on which he ceased to hold clients' money, irrespective of whether or not he renews his practising certificate.

'Accounting periods should begin at the expiry of the last preceding accounting period for which an accountant's certificate shall have been delivered and should cover a period of not less than twelve months, except in the case of those solicitors to whom Rule 8 (2) and Rule 9 (1) of the Accountant's Certificate Rules refer.

'Certificates should be given by the accountant who is responsible for the examination of the accounts and signed by him in his own name and not that of the firm.

'Separate accountant's certificates are required to be delivered by every partner of a firm of solicitors.

'Attention is also directed to the liability of partners remunerated at a fixed salary to deliver an accountant's certificate. The Council of the Law Society have previously expressed the view that all such solicitors should deliver an accountant's certificate. When completing the declaration which leads to the issue of their practising certificates such solicitors should state that they have complied with the Solicitors' Accounts Rules.'

The Incorporated Accountants' Research Committee

REPORT FOR 1951

A year of activity is recorded in the report for 1951 of the Incorporated Accountants' Research Committee which in fact comprises three sub-committees under the general direction of an executive committee.

The current publications of the Committee are listed, together with brief details of six booklets which are in course of preparation by the Practice Committee under the chairmanship of Mr A. C. Simmonds, F.S.A.A.

The Taxation Committee under the chairmanship of Mr J. S. Heaton, F.S.A.A., has prepared a memorandum which was submitted to the Millard Tucker Committee on Retirement Provisions and recommendations to the Royal Commission on the Taxation of Profits and Income.

Papers on various subjects have been prepared by the Management Accounting Committee under the chairmanship of Mr P. G. James, B.COM., F.S.A.A., and have been presented at meetings of members. Work is progressing in the production of a costing manual for the boot and shoe industry. It is hoped that this will be published in 1952.

A model set of accounts to be used by the Society's district societies has been prepared by the Chairman with the assistance of members of the Committee and came into operation in 1951. The chairman of the Executive Committee is Mr Bertram Nelson, J.P., F.S.A.A., Vice-President of the Society.

Residential Course for Liverpool and Manchester Students

The sixth residential course for students to be arranged by the Education and Joint Tuition Committees of the Liverpool and Manchester Societies of Chartered Accountants to be held at Burton Manor, Burton, Wirral, opens next Monday.

The course for Intermediate students will be from Monday to Saturday, and the Final students' course will then continue until the following Thursday.

Friendly Societies

A statistical summary for the years 1940–50 compiled from the annual returns of societies and branches registered under the Friendly Societies Acts, 1896–1948, has been issued by the Registry of Friendly Societies.[1]

The summary shows that over the ten-year period there has been a distinct annual fall in the number of societies, whereas the membership has increased considerably, as have the total funds. In 1950 there were 18,152 registered societies with a membership of 41,696,573, and funds totalling £412,133,000. By comparison the 1940 figures were 22,144 societies with 36,465,883 members and total funds amounting to £263,157,000.

[1] Friendly Societies: Statistical Summary, 1940–1950. H.M.S.O. 4*d* net.

Chartered Accountant Students' Society of London

An exceptionally large number of members attended a meeting of the Society in the Oak Hall of the Institute on March 19th, when the motion: 'That an accountancy school be set up for articled clerks' was debated. The discussion lasted for two and a half hours and speakers on both sides expressed forceful opinions and arguments.

Mr C. J. G. Hughes, LL.B., F.C.A., who presided, kept cheerful control over the debate, and his firm and friendly handling of the speakers was acclaimed at the meeting's conclusion. The motion was carried by 60 votes to 22.

Student Society's First Annual Meeting

The first annual general meeting of the North Yorkshire and South Durham Chartered Accountant Students' Society was held on March 5th, at *The Queen's Hotel*, Stockton-on-Tees, with Mr W. J. E. Ringquist, J.P., F.C.A., in the chair.

The Hon. Secretary reported that there were fifty-nine ordinary members of the society. It was agreed that the subscription rate be fixed at £1 1*s* 0*d*, but that the rate for students residing more than twenty miles from Stockton-on-Tees, be reduced to 10*s* 6*d*.

The following officers were elected for the ensuing year:

President: Mr W. J. E. Ringquist, J.P., F.C.A.
Vice-President: Mr H. D. Anderson, F.C.A.
Hon. Secretary: Mr R. W. Swinbank, F.C.A., 70 High Street, Stockton-on-Tees.
Hon. Treasurer: Mr J. P. Ord.
Committee: (*Hon. members*): Messrs C. G. Sparrow, F.C.A., C. H. W. Sansom, A.C.A., and A. T. Priestley, A.C.A. (*Ordinary members*): Messrs R. J. Wilson, M. L. Martin, R. H. Armstrong, H. Downing, and H. C. Bowron.
Auditor: Mr T. J. W. Evans, A.C.A.

Incorporated Accountants' Hull and District Society

STUDENT MEMBERS' COURSE

A two-day residential course for student members of the Incorporated Accountants' Hull and District Society is being held at Thwaite Hall, Cottingham, near Hull, next week-end.

The course is for both Final and Intermediate students and the programme, which commences on Friday evening, includes addresses by seven lecturers and a brains trust. Each lecture will be followed by a discussion and at the final meeting on Sunday evening discussion groups will submit reports on the week-end's work.

Local Health Services Statistics, 1950–51

A second return of local health services statistics – the first was published last year – has been prepared by the Institute of Municipal Treasurers and Accountants and the Society of County Treasurers, and covers the year ended March 31st, 1951.[1]

The statistics of expenditure and unit costs set out in the booklet relate to the health services provided by 62 counties and 83 county boroughs, and the analysis of net expenditure and grants per 1,000 population is arranged under the headings, among others, of day nurseries, child welfare centres, midwifery, vaccination and immunization, home nursing and ambulance services. These sections are amplified in a further analysis of miscellaneous unit costs.

An examination of the county borough statistics – disregarding the National Health Service grants – reveals the highest net rate-borne expenditure per 1,000 people to be at Gateshead and to total £523 7s, the highest item of expenditure being £240 10s for day nurseries. Southend, with the lowest expenditure at £219 9s per 1,000 people, had no day nursery expenditure. Of the counties, London's expenditure of £539 per 1,000 people was the highest, closely followed by Carmarthen, which had the heaviest expenditure on domestic help of all authorities.

Recent Publications

THE STATE IS AT YOUR SERVICE (*Daily Express* Legal Guide No. 3), by Derek H. Hene, M.A.(CANTAB.), Barrister-at-Law. 47 pp. 8½×5½. 2s net. The London Express Newspaper Ltd, London.

FINANCIAL CONTROL FOR THE SMALL MANUFACTURER, Second (enlarged) Edition, by Francis Simmonds, F.C.W.A., A.M.I.I.A. xiii+104 pp. and appendices. 9×5½. 15s net. Jordan & Sons Ltd, London.

DICTIONARY OF COSTING. Third Edition, by R. J. H. Ryall. xii+484 pp. 9×5½. 30s net. Sir Isaac Pitman & Sons Ltd, London.

TAX CASES REPORTED UNDER THE DIRECTION OF THE BOARD OF INLAND REVENUE. Vol. XXXI, Part VIII, pages 393–446. 9¾×6. 1s net. H.M.S.O., London.

ADVERTISING EXPENDITURE IN 1948, by Rodney Silverman, B.SC.(ECON.). xi+99 pp. 9½×6. 21s net. Newman Neame Ltd, London.

[1] Obtainable from the Institute of Municipal Treasurers and Accountants and the Society of County Treasurers at 3s net, or at a reduced price for a number of copies.

THE PRINCIPLES AND PRACTICE OF MODERN PROFITS INSURANCE, by L. C. Boyd, F.C.I.I., and R. G. Furness, A.I.C.A., A.F.I.A. vi+259 pp. 9×5½. £2 net. Sweet & Maxwell Ltd, London.

COST ACCOUNTING IN INDUSTRIAL MANAGEMENT, by Harry Fisher, F.C.W.A., and David L. Thompson, A.M.I.PROD.E., A.M.I.I.A. xii+210 pp. 9×5½. 21s net, post free 21s 8d. Gee & Co (Publishers) Ltd, London.

SPECIMEN ANSWERS to the Questions set at The Institute of Chartered Accountants' Final Examination and Intermediate Examination, November 1951, with copies of the Questions. 14×8. Portfolio. Final, 7s 6d net, by post, 7s 9d; Intermediate, 6s net, by post, 6s 3d. Study Services Ltd, London.

KEY TO BUSINESS BOOK-KEEPING, by R. A. Goodman. Second Edition, by Cyril E. Hall, F.C.A. vii+320 pp. 7½×5. 20s net. Sir Isaac Pitman & Sons Ltd, London.

THE PRINCIPLES OF AUDITING. Eleventh Edition, by F. R. M. de Paula, C.B.E., F.C.A. xvi+368 pp. 10×6½. 25s net. Sir Isaac Pitman & Sons Ltd, London.

PREPARATION FOR PROFESSIONAL EXAMINATIONS, by J. H. Burton, F.S.A.A., F.I.M.T.A., F.C.C.S., F.T.I.I., F.R.ECON.S. 91 pp. 7½×5. 10s net; 10s 6d post free. Gee & Co (Publishers) Ltd, London.

STUDIES IN BRITISH FINANCIAL POLICY 1914–25, by E. V. Morgan. xii+388 pp. 9×5½. 28s net. Macmillan & Co Ltd, London.

PALMER'S COMPANY PRECEDENTS, Sixteenth Edition, by His Honour A. F. Topham, Q.C., LL.M. Part II, Winding-up, Forms and Practice. xcix+1144 pp. 10×6½. £6 15s net. Stevens & Sons Ltd, London.

THE LAW RELATING TO MONEYLENDERS, Fourth Edition, by Lord Meston. xl+451 pp. 5½×8½. 70s net. The Solicitors' Law Stationery Society Ltd, London.

Our Contemporaries

THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (January.) 'Accounting and Inflation', by R. J. Chambers, B.EC., A.I.C.A.

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (February.) 'Audits – Planning and Review', by Weldon Powell, C.P.A.

Other Publications Received

THE ACCOUNTANTS' MAGAZINE. (March.)
THE LAW SOCIETY'S GAZETTE. (March.)
INFORMATION. (Stockholm.) (March.)
THE CERTIFIED BOOK-KEEPER. (Cape Town.) (January.)

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CONTENTS

THE FINANCE BILL

THE Finance Bill which had its first reading on March 20th last and was published on March 27th can fairly be said to confirm the worst fears raised by the Budget speech. Containing sixty-five clauses and thirteen schedules, and 122 pages long, the Bill is of unparalleled complexity, even for a Finance Bill. It will certainly lay an immense burden, both on accountants and on the Inland Revenue apart from its depredations on taxpayers' pockets. Notwithstanding its great length, the Bill follows the time-honoured precedent of incorporating by reference large amounts of complicated earlier legislation and of amending other earlier legislation by enacting how it is to be read, instead of setting it out as amended. Following, as it does, on the heels of the Income Tax Consolidation Act, this is particularly regrettable.

Profits Tax

Part IV and the Seventh Schedule to the Bill deal with profits tax. As stated in our issue of March 15th last the rate of tax is reduced to 17½ per cent as from January 1st, 1952, the relief for non-distribution being at the same time reduced to 15 per cent and leaving a net charge of only 2½ per cent on undistributed profit. These percentages are net, as the tax is to be ignored in computing profit and management expenses for income-tax purposes.

For building societies the overriding maximum rate is reduced from 6 per cent to 2 per cent, and there is a reduction from 10 per cent to 2½ per cent in the case of disallowed payments received from a connected company (Finance Act, 1948, Section 69 (3)), and in the case of statutory undertakers (Finance Act, 1951, Section 29 (2)).

Distribution charges

There will be four possible rates of distribution charge. In order of priority they are: 15 per cent in respect of post-1951 non-distribution relief, 20 per cent in respect of non-distribution relief given at 40 per cent, 10 per cent in respect of non-distribution relief given at 20 per cent, and 7½ per cent in respect of non-distribution relief given at the original 15 per cent. It will be observed that the rate of charge in respect of pre-1952 non-distribution relief is in each case exactly half the rate at which relief was given. The reason is that the charge will no longer be deductible in arriving at profit for income-tax purposes; the reduction by half is a rough approximation of the amount of income-tax which might otherwise be recovered by the person charged, at 9*s* 6*d* in the pound. Incidentally this meets the criticism that under the old provisions the taxpayer was not certain to obtain the income-tax relief that normally follows a distribution charge.

Repayment of loans: director-controlled companies

There are consequential provisions dealing with relief for the repayment of loans which have been treated as distributions. Although these provisions are incredibly complex, their purpose is simply to secure that the company shall recover, when the loan has been repaid to it, the precise amount by which its profits tax liability was increased as a result of the original making of the loan, subject to this proviso that where the increase in profits tax has already been allowed in arriving at income-tax liability, only half of the increase shall be recovered – again a rough approximation to the 9*s* 6*d* standard rate. It may well be that these provisions will give rise to anomalies.

Excessive dividends

When the rate of profits tax has in the past been increased, the increase has been accompanied by provisions directed against presumed avoidance by declaring extra large dividends in relation to the pre-increase period. The proposed decrease in rate is similarly accompanied by like provisions in reverse, directed against the concentration of dividends into the period of reduced rate. They are contained in paragraph 6 of the Seventh Schedule and cover nearly two pages.

Directors' remuneration

As already announced, the maximum remuneration for directors of director-controlled companies is in certain circumstances to be increased. The general effect is to secure an allowance of £2,500 a year for the senior working director, and £1,500 for each of the others up to a maximum of three. Director control for part of the chargeable period will result in an apportionment of the amount to be disallowed, in accordance with the present practice.

Excess Profits Levy

The new levy takes up twenty-seven clauses and four schedules, a fact which makes it difficult to understand the CHANCELLOR'S reference to the 'waste of man hours' caused by the old excess profits tax. As announced, the rate is to be 30 per cent net, with an overriding maximum of 18 per cent of the current profit. This maximum does not however apply to each chargeable accounting period, but is to be spread over the whole period during which excess profits levy is in force, a period which so far remains unspecified. Thus a running record will have to be kept, and if no levy has been incurred in the earlier periods, the levy for a later period may well approach the full 30 per cent of the whole profit.

Persons chargeable

The scope of the levy is, with minor exceptions, the same as for profits tax, and therefore includes such concerns as local authorities, investment companies, and water undertakings. Even the B.B.C. does not escape.

A company which operates abroad is not liable, even though ordinarily resident here, if all its shares are owned by non-resident bodies corporate and nine-tenths of their shares are beneficially owned, directly or indirectly, by individuals who are neither resident nor ordinarily resident.

Standards

The standard period is the three years ended on December 31st, 1949, and the normal standard is one-third of the total profit in that period. The taxpayer may opt to replace the profit of one or two of those years by 8 per cent of the average paid-up share capital in each of those years (including share premiums). The standard is increased by 10 per cent of any increase in paid-up share capital, and correspondingly reduced where share capital is repaid. There is another optional standard of 10 per cent of the paid-up share capital at December 31st, 1949. The expression 'paid-up share capital' does not extend to bonus issues.

To compensate for the restriction of directors' remuneration in director-controlled companies, the above percentages are all increased by 2 per cent in the case of such companies. Similar, but larger, increases are also provided for oil and mining concerns whose operational life is limited.

There is a minimum standard of £2,500 which is subject to restriction in the case of a new company which is under common control with other companies. This is no doubt intended to check evasion consisting of hiving off parts of a business in order to obtain additional minimum standards.

Deficiency relief

As was the case with excess profits tax, a deficiency below the adjusted standard is to be set off primarily against previous excesses and then against subsequent ones. The relief may have to be restricted to ensure that the maximum 18 per cent rate is applied to the aggregate of all chargeable periods. However, deficiencies are not to be

carried beyond what the Bill calls 'a break in continuity'. A number of things can cause such a break, even though there is no break in the ordinary sense. They are set out in clause 36 (5) and include:

(i) a substantial change in the business, following on the acquisition of control by another company or by not more than three individuals;

(ii) the cessation, or even partial cessation, of the business;

(iii) a change from an investment company to a trading company;

(iv) the appointment of a liquidator, receiver, or manager, etc.

Computation of profit

For the computation of profit, clause 39 applies the existing profits tax provisions but subject to the modifications contained in the Eighth Schedule. These exclude the franked investment income and abatement provisions and revive the old excess profits tax provisions dealing with the disallowance of expenses which are not 'reasonable and necessary', the spreading of profit from long-term contracts, the spreading of expenses attributable to more than one year, and the disallowance of 'back service' payments under superannuation schemes. Interest and annual payments to controlling directors are not to be disallowed, while their remuneration is to be subject to the same restrictions, for both standard and chargeable periods, as are now to be applied to profits tax. There are special provisions for mining and oil concerns, while the brewers are given the right to add back *Usher* allowances given to them in the standard period.

Initial allowances will be specially recomputed on the footing that they have not been abolished and that the increase to two-fifths had never taken place. However, the taxpayer may, within a limited period, elect to disregard initial allowances altogether.

Discouragement of distributions

As we feared, the complicated profits tax provisions designed to encourage the ploughing back of profits are to be reinforced by parallel, and even more complicated, provisions of the excess profits levy.

Clause 33 (3) provides for an increase in the standard where there are undistributed profits in respect of the period beginning with January 1st, 1948, and ending twelve months before the end of the chargeable accounting period, i.e. normally at the beginning of the chargeable accounting period. The increase is 10 per cent of the undistributed profits. If there has been an 'over-distribution' of profits, 10 per cent of it is deducted from the standard. For director-controlled companies the percentage is 12.

Profits undistributed and over-distributed

The expressions 'undistributed profits' and 'over-distribution of profits' are given special meanings which take all four pages of the Ninth Schedule to set out. The schedule provides for a kind of profit and loss account. This is credited with one-half of the profits (computed on a special basis) and with the whole of any refund of levy. Debits consist of half of any loss, all the excess profits levy charged, that part of profits tax charged which is attributable to distributions in the profits tax sense, net dividends, company sur-tax, payments for restrictive covenants, and assets distributed to members in kind. Elaborate provisions are set out for the valuation of these assets. A credit balance will represent undistributed profits, a debit balance will represent an over-distribution. The draftsman might well have coined the expression 'undistribution' for the former, on the lines of Humpty-dumpty's 'unbirthday' present.

Profit and loss computations for the purpose of calculating under- and over-distributions will be simplified by the exclusion of the special provisions for initial allowances, oil wells and mines, unreasonable expenses, spreading of expenses, and restriction of directors' remuneration. Nevertheless the provisions involve computations of profit in 1950 and 1951 as well as in the standard and chargeable periods.

Special provisions

The Bill contains lengthy provisions dealing with new businesses, groups of companies, non-residents, statutory undertakers and nationalized industries, and sur-tax companies. It is to be hoped that common sense will break out before the Bill becomes law and that some regard will be had to the fact that the available manpower for working out these fantastic complications is not unlimited.

ACCOUNTING FOR INFLATION

THE Institute of Cost and Works Accountants has performed a service in publishing *The Accountancy of Changing Price Levels*.[1] This book collects together the views of individual members of the various branches of the Institute. As such, it does not represent an official statement by the Council of that Institute. But, for all that, it is to be welcomed as a contribution to the discussion of a difficult subject.

In a period of rising prices the amount set aside for depreciation of fixed assets, if it is calculated by reference to original cost, will be insufficient to provide for their replacement, like-for-like, at the end of their assumed life. And if a manufacturer is unable to retain in his business sufficient profit over and above what has been set aside for depreciation on an original cost basis, he will sooner or later be unable to keep his factory going at the existing rate of output – unless he has recourse to raising fresh capital. In fact, he will fail to maintain intact his real capital, which is his capacity to produce.

In times of slowly rising prices, the inadequacy of the provision for depreciation on original cost is not significant, because the profit ploughed back into a business is normally enough to make good any deficiency. But this is not so when price levels rise steeply. And the problem is aggravated at present by three factors. Firstly, the sources of fresh capital are diminishing, and apart from that there is the deterrent effect of capital issues control. Secondly, it is difficult to persuade those who seek higher wages that the profits are not really available for distribution, but are required to replace plant that provides employment. Finally, taxation of business (on the present basis of assessment) is so high that it is almost impossible to provide additional sums for asset replacement out of taxed profits.

In these circumstances it was perhaps only natural that people should begin to question whether the accountancy itself was sound.

The economist, seeing the danger of too large dividends being distributed to shareholders as current purchasing power when it should be saved and held for asset replacement, suggested that the accounting concept of profit was faulty in that it did not guarantee the maintenance of physical capital.

The industrialist, seeing the drain of capital caused by high taxation, reflected that if his profits were stated differently – after providing for inflated replacement costs instead of before – the taxing authorities might be persuaded to accept for tax purposes that method of profit measurement, and trade unionists would not be misled about the level of profits. Thus the demand grew, largely out of expediency, for a re-examination of the traditional principles of accounting.

If it was natural for accountancy to be called in question, it was also natural that the accountant should look askance at his questioners. For it seemed to him evident that the difficulty was capable of settlement without interfering with accounting principles at all. If businesses were in danger of over-distributing profits in times of rising prices, the business men – advised, no doubt, by their accountants – should exercise restraint in dividend policy to ensure continuity of their business. If taxation prevented the setting aside of reserves in adequate amounts, the Government should ensure that the basis of assessment was modified accordingly. And so on.

In fact (the argument ran) it was not accountancy that was at fault, but rather those persons who used accounts without fully appreciating their nature or realizing the limitations inherent in their essential purpose.

But the questioning and the pressure continued; and many members of the accounting profession themselves began to take the view that accountancy reform was not only necessary but overdue. So the great debate continues – now inside the profession as well as outside.

It is in the context of that debate that this book is of value. It is not 'a form of "text-book" on the subject', as the Institute claims; there can be no text-book where there is as yet no subject. It is, rather, an illustration of the sort of accountancy which the proposed reform would bring into being, and of the problems and complexities that are part of it. If we contemplate abandoning general principles and changing time-honoured methods, let us at least take a look before we leap.

[1] Gee & Co (Publishers) Ltd, London. 15s net.

HIGHER CONTROL

by T. G. ROSE, M.I.Mech.E., F.I.I.A., M.I.P.E.

THE problem of top-management control – the direction and guidance of the undertaking as a whole which is the sole responsibility of the managing director – is a matter which has been coming more and more into the foreground in recent years. It possesses peculiar difficulties, since it is set entirely in the field of general management, and that field is still far from being defined or clearly understood.

The Chief Executive

The task of building up the technique of 'company control', as this particular field of management responsibility is coming to be known, is all the more complicated because one of the major factors in it is the experience, character, temperament, and personality of the chief executive himself. The responsibilities which he has to shoulder do not exist at all for the departmental managers, and therefore, when a man rises to be the head of a concern, perhaps in middle or later life, he finds himself suddenly required to develop a point of view altogether different from what he has hitherto possessed.

Presentation of Facts and Figures

The presentation of the facts and figures which record what is going on is of course an important factor in helping him to make the decisions by which he guides affairs. He will in all probability have a board of directors, with a chairman, to assist him in making these decisions, but their duties are purely advisory and not executive, and it will be part of his responsibility to provide for his colleagues on the board such information as will show them clearly what is happening, and enable them to form sensible opinions as to what course it is best to pursue. But once these decisions have been taken and minuted, it is the managing director who will have to carry them out, and he therefore needs to be kept closely and accurately in touch with the state of affairs all the year round.

That state of affairs can be seen in the sales statistics, the company's books of account, and certain records usually kept in the factory, where a manufacturing business is concerned. But these data must be approached in the right spirit, and presented in a suitable manner, if the managing director is to be able to take full advantage of the information which they offer. Only recently has it begun to be realized that there is a vital principle involved – that the approach to this problem of top-level data presentation must be primarily from the administrative angle and not from the accounting one. However expert the accountant may be, however detailed the schedules that he submits, unless they follow the precise line of thought which is natural to his chief's mind when studying the condition of the company as a whole, they are liable to be more of a hindrance than a help.

Essential for the Industrial Undertaking

If an industrial undertaking is to remain in being it must

(1) Sell its goods or services to someone else.
(2) Make an adequate profit on that sale.
(3) Maintain a stable and secure financial condition.
(4) Keep abreast of the times in the quality of its products, its methods of production, and its technical equipment.

Every managing director instinctively watches what is taking place with those four objectives at the back of his mind. The information which comes before him, therefore, should be classified in this manner, so that his whole survey can be made in an orderly and logical way. Once these four main aspects have been recognized and adopted, all the facts and figures that emerge fall naturally into place – the records of orders received, invoices issued, and orders outstanding in the first aspect, the profit and loss account in the second aspect, the balance sheet and its implications in the third aspect, and the product costs and other technical information regarding the processes, equipment, development, and so on, in the fourth aspect.

Higher Control: an Administrative Background

Higher control differs from budgetary control in that it has an administrative and not an accounting background. It was built up under the supervision of Mr A. H. Pollen in 1928–30. It is precisely this fact of its parentage to which higher control owes much of its value and the contribution that it has made to the problem of company control, because it emerged under the guidance of a very brilliant and experienced managing director, energetic in sales policy, watchful in development, shrewd in finance, himself a director of several other large

concerns, and conscious of the ineffectiveness of the material submitted to him and his colleagues at their meetings. He made up his mind to have a framework of facts and figures which would tell him plainly what was going on. Primarily it was for his own use, and only later was it realized that a new and invaluable foundation for the general management of any business had been created.

Development of Higher Control

Since then the method has been steadily developing by use and research – and continues to do so. In this, the four aspects into which it is divided – business, trading, financial, and technical – have proved of great value, since work done in one can be related to the others in due course, and so the interlocking of the whole structure maintained. In this manner it is possible to maintain the administrative approach to the trading and financial figures, and continually add to the technique, which prevents the method 'bogging-down' into a dull routine.

One of the great advantages of the higher control method is that it can be adopted to a degree commensurate with the time at the managing director's disposal, and his personal capacity to assimilate figure trends and movements. Even the main primary results by themselves are of use if he does not wish to build the structure any further. The linking together of all the movements going on in the business provides, as one user said,

> 'an exciting monthly serial which compares favourably with the dead-pan history of ordinary accounts'.

Higher Control uses Normal Figures

The fact that higher control uses simply the normal figures to be found in the books of account which exist in every well-organized concern has perhaps been a hindrance to its wider use, curious as it may appear. Few managing directors other than those in the larger companies can afford to employ a 'control assistant' whose full-time duty it is to watch over the collection, arrangement, and presentation of the working results month by month. In the majority of cases this task falls to the accountant, with perhaps the sales manager submitting the business figures, and the works manager supplying the technical details. Most accountants, being technical experts in their own field, find it difficult to understand why the arrangement of the figures in one form or another should have any significance, provided the final figure of profit or loss is accurately computed.

Training Courses for Senior Executives

The managing director, on the other hand, is usually too overwhelmed with duties of every description to have any time to spare for investigating control methods; unless he happens to come across the higher control method in use in another company, he is not likely to take advantage of its clarity and simplicity. No doubt at some later date short-term training courses for senior executives will be available, as they have been for some time now in America. In these, company control would naturally be one of the subjects dealt with. But for the time being it is perhaps the accountants, more than any other professional group, who might help to develop the field.

Higher Control is a Philosophy

It has sometimes been said that higher control is not a method at all – it is a philosophy of management, a way of thought, and for that reason many people are reluctant to adopt it. Perhaps there is something in this; many of us may enjoy a rough-and-tumble with a complicated set of figures, and yet be strongly allergic to any suggestion that we should change our mental approach to the problems concerned. But the same criticism might be applied to budgetary control, or to any other 'way of thought' which demands an orderly and logical sequence of mental processes in the movement towards an objective. In this company control problem we must face up to the fact that the objective before us is the effective control of the undertaking as a whole *by the managing director*, and all our processes of thought must concentrate on the administrative effectiveness from his point of view of the structure we create.

Importance of Information for Managing Director

Budgetary control, standard costs, and advanced accounting techniques of that type undoubtedly have their place in that structure, and no one who has used them would question their value. They all contribute towards the objective of company control, but neither they nor the higher control method can in fact exercise that control. That can only be done by the managing director himself, and the extent to which he is able to watch over the well-being of the community of which he is the leader, and maintain its security, will be directly in proportion to his recognition of the effectiveness of the information he receives from the staff who are working under him for the common good.

NORTH AMERICAN COMMENTARY–XXXII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, January

The Incidence of Pension Plans on Income

COMMENTING on his survey of 260 pension plans, Mr Warde B. Ogden, C.P.A., suggests that the accountancy profession might state as a formal accounting principle the necessity for making provision for pensions over the period of the employees' service. He reports that most of the companies are following the 'cash' basis, recording costs in a wide variety of periods and amounts, without any necessary relation to the attributable income.

He asks whether accountants should be willing to 'certify' a resulting net income figure unless disclosure or explanation is made of the methods used. If his warning be accepted that modern union-negotiated pensions plans cannot be regarded, for practical purposes, as terminable at will, then it is surely true that pensions should today be treated as an element of labour costs and accounted for accordingly.

Accounting for Price Level Changes

Mr Maurice H. Stans, C.P.A., a member of the Council of the American Institute of Accountants, reviews the achievement of the American Accounting Association in its recent formal recommendations for dealing in the accounts with price level changes. He points out that the recommendation for public presentation of supplementary accounts alongside the normal accounts makes the proposals merely an extension, not a revision, of accepted accounting practice.

He emphasizes the rejection of construction price indices and replacement values, as a means of conversion, in favour of a general price index, envisaging the possibility that some day price index adjustment may become a regular part of accounting. Mr Stans comments that the recommendation that price level adjustments be applied to *all* accounts and operations, not merely to inventories and fixed assets, implies that the gain or loss on fixed dollar items should be computed as a single adjustment item. Time and use may suggest refinements, he says, such as the netting of liabilities against asset costs with which they may be clearly identified. The recommendations are purely tentative, leaving to further research the working out of a methodology.

An important point made by Mr Stans is that the recommendation for the use of historical cost in the primary statements, with adjusted cost left to the supplementary statements, presumably means that LIFO should be discarded in favour of FIFO, as a historical cost procedure.

Accounting Review, Menasha, Wisconsin, January

Special Items in the Income Statement

In its anxiety that published accounts shall not mislead as to significance of the income figure, the United States still gives great attention to the wisdom or otherwise of including special items in the income statement.

The regulations of the Securities and Exchange Commission now require their exclusion from income determination but their inclusion on the income statement after net income. Professor Wendell P. Trumbull contrasts this with the former recommendations of the American Institute of Accountants, providing for exclusion of these items from both income determination and the income statement. He states, however, that Bulletin 41 more recently removes the last obstacle to general adoption of the all-inclusive statement, recognizing the acceptability of inclusion of the special items immediately below the net income line.

Accounting for the Atomic Energy Commission

Professor Martin L. Black, Jnr., Duke University Consultant, Atomic Energy Commission, reveals important changes in A.E.C. accounting. There was formerly no distinction between capital and operating expenditures and no recognition was given to accruals, inventories or depreciation. Government accounting has indeed been far removed from that of most modern industrial organizations. Coinciding with a change in government accounts in general, great changes have been made by the A.E.C. since July 1st, 1948. Contractors are required to keep reciprocal accounts covering their operations with the A.E.C., tying in with those of the Commission

on much the same lines as those of branches in relation to head office.

There has been difficulty in regard to depreciation which cannot appear in budget requests, since Congress does not fund depreciation. Consequently, total depreciation has appeared as a single item in the operating statement and has not been entered through the cost accounts. Product cost accounting is now to be installed, however, process, job and standard costs all being used. Professor Black states that the A.E.C. is in the forefront of this most important accounting development of the present time – the integration of modern industrial and government accounting and budgeting.

N.A.C.A. Bulletin (National Association of Cost Accountants),
New York, January

Productivity Measurement

An introductory note to an article by Mr William Langenberg, manager, cost division, Johnson & Johnson, New Brunswick, N.J., draws attention to

> 'current interest in development of a method of comprehensive productivity measurement which may be relied on for practical purposes, and to the beginnings of a literature on the subject'.

Mr Langenberg states that such measurement has in the past been possible on a short-term basis, by means of budgets and standard costs, but not so easily on a long-term basis and in multi-product industries. He develops the theory that production should be measured in terms of all effort or resources expended in production – labour, machines, floor space, capital invested. This 'input' can then be offset against an evaluation of physical units of production (output), the effect of price level changes being eliminated by the use of fixed standard costs.

For a base year, calculation is made of (1) the total manufacturing wage and salary hours expended in production, and the average hourly payroll rate, and (2) total depreciation of equipment used, in terms of 'equivalent hours' found by dividing depreciation cost by the average hourly payroll rate calculated in (1). This gives a composite index of input in terms of wage and salary hours. Then in following years the 'equivalent hours' of the base year are increased or decreased by applying the current year's average hourly payroll rate to any difference in the current depreciation cost. The same is done for conversion of repairs and maintenance of equipment and of any other factors of input expressed in monetary terms. From the calculations of corresponding output and input, productivity ratios are determined for comparison of production from year to year.

Whole Dollar Accounting

Mr Wayne R. Archerd, Assistant to the Controller, Bethlehem Steel Co, describes the methods of cents elimination from the accounts, as developed by this vast enterprise since 1928, with results which he reports to have been 'highly beneficial in every respect'. Personal accounts and cash are necessarily recorded in dollars and cents, though he says that some companies are seeking approval of certain customers at least for billing in whole dollars only.

In other accounts, entries are made correct to the nearest dollar, the balancing cents being passed through commercial discount account. Invoices billing customers show a columnar analysis of each sale as between transportation and commission (these being liabilities recorded in dollars and cents) and merchandise sales value, for which there are two separate columns, one for dollars and one for cents. In the monthly posting of invoice totals the dollars in the total of the cents column are credited to merchandise sales (cents elimination), only the odd cents figure being put to the commercial discount account. It would seem that this practice is growing in popularity in North America, being adopted also by large companies in Canada.

Canadian Chartered Accountant,
Toronto, January

Presentation of Financial Information

Contrasting published financial statements in Canada with those in the United States, Mr F. S. Capon, C.A., a national director of the Controllers Institute, regrets that in Canada they have taken on a relatively rigid form. He rightly urges that though the requirements of company law are much less formal in the U.S., Canadian companies are capable of just as much originality. Mr Capon points out that, while the Dominion Companies Act does not require the presentation of comparative figures from the previous year, these should certainly be given.

It is to be noted that he favours the use of the single all-inclusive income statement in two divisions, the first showing net income from operations and the second the results of other asset changes, with elimination of the surplus statement. Here is, indeed, a rich field for accounting development in Canada.

INCOME TAX CONSOLIDATED

by E. C. H. WARNER, M.A.

All persons of substance, I'm perfectly sure,
Should seek some acquaintance with income-tax law;
So here I have tried to assist them to learn
A little of what is their vital concern.

Where any enactment of Parliament states
That tax shall be levied at specified rates,
For ensuring that these take effect as designed
A charge shall be made in the manner defined
In respect of all property, profits or gains
Described in the schedules the tax law contains.

Now those who are owners of property they
Are taxed as described in the Schedule called 'A';
And one who enjoys occupation, why, he
Is taxed as described in the Schedule called 'B'
But finds that for dwellings exception is made
And property used for a business or trade.
The annual value determines for 'A'
The basis on which every owner must pay
And tax is assessed for the Schedule called 'B'
On the annual value divided by three.
The annual value of properties here
Means the rack-rent at which they are let by the year;
Or, if it should happen no rent has been set,
The rack-rent at which they are worth to be let.

Each owner's assessment is lowered by part
(Five-sixths) of instalments of tithe for a start
And other deductions are those which relate
To repairs (under rules number seven and eight).
One-eighth is the fraction deducted for ground,
Including the farm-house and buildings around;
And more than one-sixth for the buildings that stand
On ordinary, non-agricultural land.
But, if any property-owner can show
The standard deductions allowed are below
The charges he's had, on an average, to bear
For cost of insurance or any repair
Or expenses of management actually paid
In the five years before each assessment is made,
On any excess he's entitled to claim
Repayment of tax he has paid on the same.

The Schedule called 'C' is commendably short
(And that, you'll agree, is a comforting thought);
It hauls in the tax to the Chancellor's box
From dividends paid upon Government stocks,
Including (unless they're exempted) in these
All public authority stocks overseas.
The Schedule called 'D' is concerned, in the main,
With all kinds of annual profit or gain
From property, interest, or otherwise made
In any profession, vocation or trade.
So where from a trade any profits are won
They're subject to tax under Case number One;
But if to profession the profit is due
The tax will be charged under Case number Two;
While interest of money or discounts, you see,
Are subject to tax under Case number Three
With profits of any uncertain amount;
Next overseas income is brought to account,
If due to securities then, to be sure,
This income is taxed under Case number Four,
But if from possessions, perchance, it derive
It's subject to tax under Case number Five;
And, finally, Case number Six has been set
To sweep any other gains into the net.

Where profits or other emoluments due
To office, employment or pension accrue
Such profits and gains are excluded from 'D'
And brought in instead later on under 'E'.
And here the collector of taxes relies
On whoever makes payments to which this applies
Deducting the tax from the income at source
According to specified tables, of course.
All this, the intelligent reader may learn,
Is often referred to as Pay As You Earn.

Now each individual payer of tax
Will find the collector prepared to relax
His very rapacious demands on account
Of personal relief to a modest amount
With larger relief in respect of a wife,
Or premiums paid for assurance of life,
Or if either husband or wife shall be dead
And a female keeps house for the other instead,
And, naturally, if any children exist
Corresponding reliefs may be put on the list,
While part of earned income's allowed to go free:
An excellent notion no doubt you'll agree.

But ere this description is brought to a close
I must mention that sur-tax is levied on those
Possessed of an income sufficiently large
For part to attract this additional charge.

This little account hasn't tried to do more
Than give a brief outline of income-tax law
And now it is finished; but lest it create
Misleading illusions I hasten to state
That though all the rules be as clear as the day
The tax won't be any more easy to pay.

WEEKLY NOTES

The International Congress

Many members of the bodies sponsoring the Sixth International Congress on Accounting who have expressed their intention to attend the Congress, have not yet informed the Congress Office of the tickets they will want for the business sessions and the social events.

Elsewhere in this issue there is a request to those members from the Secretary to the Congress to reply as soon as they can to the questionnaire – already circulated – so that the work of allocating tickets can be started.

There is also an invitation from the Council of the Congress to members of the sponsoring bodies and their families to offer their services in welcoming delegates and visitors from oversea and in ensuring that they and their ladies feel welcome during the whole of their stay in this country. The Ladies Committee, too, asks for help from the families of members. It is not essential that those who volunteer should speak a foreign language, but in certain cases it would be an advantage. Offers of hospitality to delegates, visitors and their ladies are also invited from firms and others for specific occasions.

We have pleasure in drawing the attention of members of the sponsoring bodies and of their families to these requests which, as already mentioned, are set out in detail on another page.

The Society's Memorandum to The Royal Commission

In our next issue we hope to discuss a memorandum submitted to the Royal Commission on the Taxation of Profits and Income by the Society of Incorporated Accountants and Auditors.

The memorandum deals with the subjects referred to in Part B of the Commission's Heads of Evidence.

More Evidence for The Royal Commission

The London and National Society for Women's Service has submitted to the Royal Commission on the Taxation of Profits and Income a memorandum criticizing the present position of married women in relation to income-tax and sur-tax, which, the Society says, does not accord with the married woman's position in relation to the general law since the passing of the Law Reform (Married Women and Tortfeasors) Act, 1935. The Society makes the following specific recommendations:

1. The recognition of married women taxpayers as individuals in the income-tax system in the same way as other taxpayers.
2. The abolition of the principle of aggregation of the incomes of husband and wife.
3. A single scale of personal allowances applicable to taxpayers without regard to marital status.
4. The provision of greater assistance to parents in the form of amended and increased family allowances coupled with the abolition of child relief under the income-tax system.
5. Relief comparable to dependent relative relief to a married person maintaining an incapacitated spouse.
6. The abolition of housekeeper allowance.

World Steel Output

Two features stand out in the British Iron and Steel Federation's estimates of world steel production for 1951. First is the vulnerability of the British steel industry to the state of supplies of scrap on the world market and the second is the dominating position of the United States steel industry.

Last year this country was the only one to make less steel than in 1950, a measure of the inability to get sufficient supplies of scrap. So far as the American industry is concerned, its proportion of world output had increased from 1937 to 1951 from 38 per cent to 45 per cent. World output as a whole increased last year by 11 per cent to 206 million tons. Figures from behind the iron curtain included in the total are those published by the Economic Commission for Europe

Growing Pressure on Textiles

The recent slight worsening in the employment position and the continued reluctance of the public to stage a large buying come-back as shown in the official retail trade figures, find common consequences in the textile industry – notably in three large areas in Lancashire, Yorkshire and the East Midlands. There are now reports of sharp cuts of output in the rayon industry and of growing concern about the outlook in Lancashire.

Particular interest in these trends attaches to the East Midlands, round Nottingham and Leicester, where a large portion of the hosiery and making-up industry is concentrated. The chill winds were felt here at the end of last summer and the industries concerned have therefore had longer to adapt themselves to the new conditions than the textile industries further north. A brief account of what has occurred may be a useful pointer to what other industries are in for over the next few months.

Lack of confidence in prices both in the home market and abroad is put down in many cases as the basic cause of the worst fall off in trade for a couple of decades. Weak selling by small firms with large stocks of hose or made-up garments has been a growing feature of late and firms are finding, although there are plenty of modifications to meet their particular experience, that generally they can still sell if they go out and look for the business and are prepared to pay attention to customers' requirements. The days of relying on a few standard lines are gone – at least for some time to come. Times are not easy and many companies are becoming embar-

rassed by their high stocks and the way this reacts on the liquidity position now that the banks are less accommodating about overdrafts. Some companies have had to shed labour and are finding it difficult to build up their teams of operatives now that there is a slight improvement. But even this improvement is far from being, as yet, an end of the slump. It is little more for most than a check to the downward trend.

Higher Industrial Output

At a time of wide public discussion about the dangers of the consequences of disinflation spreading throughout the whole field of consumer goods industries, the official index of production has behaved in a most unexpected fashion. The index records 144 for January compared with a revised figure of 139 for December. In the corresponding period last year the index remained unchanged from one month to the other. Adjustments to calculations have recorded a most remarkable increase in production, no less than five points, over the month in question.

It may be found that this change is the result of what might be called technical factors. For instance, a decline of activity in the consumer goods industries might have been offset by considerable increases in coal and capital goods industries. It is not suggested that is what in effect did happen. Provisional calculations for February gave a figure of 148 to 149 and if these estimates are borne out by events, production will have slipped back to a level lower than a year ago, for February last year saw an increase of 11 points.

Last Fiscal Year's Outcome

Much less interest than usual attends the publication of the old fiscal year's income and expenditure accounts. Usually they are available at the time of the Budget and are fitted into the Budget Speech. This year they come after the incoming financial year's fiscal policy has been delineated. In addition, they were given in an approximate form by the Chancellor on March 11th. Nevertheless, they are worth commenting upon for the record.

In the event, the actual figures are very close to those estimated last month. The above-the-line surplus is only about £10 million higher than Mr Butler expected, which is a close figure in these days of gargantuan State expenditure. Compared with the estimates made at Budget time in April 1951, there is a remarkable discrepancy – fortunately for the better. Mr Gaitskell expected to have a conventional above-the-line surplus of only £39 million which is the same as saying that there would be a substantial overall deficit once the capital items were taken into account. The actual surplus was £380 million. The main reasons for this large discrepancy were the slower rate of defence expenditure than was originally budgeted for and the buoyancy of the revenue. In the last instance, income-tax receipts played a large part and it is a reasonable deduction that these high tax yields owe a good deal to high prices and rising incomes. In turn, it was these high prices and rising incomes which defeated the Chancellor's aim to curb purchasing power by allowing prices to rise – but not earnings. In the event, incomes rose as well and the Budget figures were out by a large amount accordingly.

With such wide variations between estimates and actuals there may be some ground for scepticism about the value of the Budget and the official actions which follow from it as a nice, delicate instrument of economic policy. Some reassurance may be obtained perhaps, though not for an accountant, from the fact that for some years now the actual results have always been better, not worse, than the estimates.

Pressure for a Fuel Policy

The Trades Union Congress has now joined the Federation of British Industries in calling for a national fuel policy. The F.B.I. issued a pamphlet some weeks ago on the subject calling attention to the urgency of the problem and this week the T.U.C. has given evidence to the same committee which called forth the F.B.I.'s memorandum (the Committee on National Fuel Policy). Both sets of evidence have marks of similarity.

The F.B.I. called attention to the imminent danger of coal consumption including exports far outstripping production on present trends by the 1960s. It emphasized the danger of allowing the great fuel consuming industries – such as electricity and gas – to plan and carry out long-term expansion schemes without first making sure that this country's attenuated resources of mined coal were being used to the best advantage. Emphasis was also placed on the scope for fuel economy in factories.

The T.U.C. follows very closely on these lines but it shows a greater liking for administrative checks than on the discipline of the price level.

Whatever may be the differences in the prescription for the problem, there is a very wide area of agreement between the two. There is certainly a great deal to be said for stressing the agreement among all interested parties so that a policy can be worked out and implemented.

Aluminium Price Increases

The almost strange persistency with which dollar commodities remain high, thus failing to offer any relief to the British balance of payments position while sterling commodities go on falling in price, was illustrated again last week. The price of virgin aluminium in ingot form was raised last week-end by the Ministry of Supply from £148 to £154 a ton. The change came into effect as from last Tuesday.

The increase in price has been caused mainly by higher import prices – a large proportion of this country's ingot comes from Canada. Apparently the higher cost of home-produced aluminium has also been taken into account. Since the price terms of the Anglo-Canadian contract for ingot supplies have not been published (only the tonnage figures over a run of years are known) it is not possible to assess the factors which are pressing on the Canadian price.

FINANCE AND COMMERCE

The impression is gaining ground that the gilt-edged market may be turning out of the 'bear' movement which has run for over five years since the collapse of the post-war ultra-cheap money experiment. For the past two weeks the market has received support of a size and character not seen for some time past. It is, however, too early yet for real confidence to be placed in the movement. There may yet be some shocks for the market from the first quarter's gold and dollar reserve figures and from the balance of payments position in general. The effect of a 4 per cent Bank Rate and tight credit restriction cannot be overlooked.

'Unexpected Effect'

The first accounts of Desoutter Brothers (Holdings) Ltd illustrate what the chairman, Mr E. R. Desoutter, describes as 'an unexpected effect of the Companies Act, 1948'. The company is entirely a holding concern formed for the purpose of selling an interest in the Desoutter Brothers power tool business to the public to provide for death duties.

Full provision was made by the subsidiary company for income-tax in its accounts for 1950, including tax on that year's profits which would be assessable for 1951–52. At December 31st, 1950, that tax was a provision and not a current liability with the result that 'the Act freezes such provisions at the date of the acquisition of the shares by the holding company and turns them into capital reserves, unavailable for the purpose for which they were set aside, namely, the payment of taxation'. Provision for the tax has been made anew out of the 1951 profits.

The chairman explains that 'this will not, of course, withdraw this sum from the company's funds and its effect was realized when the offer for sale was prepared and appropriate provision made in the figures then presented; but it has compulsorily capitalized a substantial amount of our profits'. A substantial provision, he adds, has been made for the future liability for income-tax on the profits of the year, assessable for 1952–53. .'

We reprint the accounts this week.

But For The Act

Another reference to the Companies Act comes from Sir Eric Bowater, chairman of The Bowater Paper Corporation Ltd, which produces one of the most voluminous sets of accounts covering the affairs of seven companies.

Sir Eric at the annual meeting defended the company against charges of profiteering. Profits, before taxation, were up from £5,395,488 to £10,275,537. He maintained that a substantial part of this increase was 'in reality attributable to extraneous profits arising as a result of the inflationary period through which this country has been passing'. The company, he said, could not be expected to sell its products on an uneconomic basis or fail to obtain current market prices.

And the reference to the Act. But for the fact that the Companies Act, 1948, required disclosure, a considerable part of the 'so-called profits' would have been put to 'what used to be known as internal reserves'. Times have certainly changed since the days when profits needed inverted commas.

John White Improvement

We welcome a greatly improved annual publication by John White Footwear Ltd. The company leaves behind the bare accounts and short directors' report and has adopted a larger illustrated booklet. More space is given to the accounts and colour is used for the comparison. Fixed asset detail is taken out of the balance sheet and given in a separate schedule of fixed assets and depreciation. The publicity value of the annual publication is also recognized, the booklet containing in a separate folder a coloured illustrated supplement showing a range of men's shoes made by the company and the prices for which they can be obtained from the company's agents.

Still further, Mr John White's statement as chairman is included with the accounts and the reader has with the figures an exposition of the company's finance, production, export position and sales

DESOUTTER BROTHERS (HOLDINGS) LIMITED
Balance Sheet as at December 31st, 1951

	Authorized £	Issued and Fully Paid £
Share Capital:		
350,000 5½ per cent Cumulative Preference Shares of £1 each	350,000	350,000
1,400,000 Ordinary Shares of 5s each ..	350,000	350,000
	£700,000	700,000
Revenue – Profit and Loss Account		223
		700,223
Amount due to Subsidiary Company		15,000
Current Liabilities:		
Accrued Expenses	304	
Provision for Final Dividend upon Ordinary Shares (net)	29,400	
		29,704
		£744,927

	£	£
Fixed Assets:		
Investment in wholly-owned Subsidiary Company, at cost		700,000
Current Assets:		
Dividend (net) receivable from Subsidiary Company	29,854	
Bank Balance	3,959	
		33,813
Formation Expenses, at cost		11,114
		£744,927

E. R. DESOUTTER }
G. H. WEBB } *Directors.*

DESOUTTER BROTHERS (HOLDINGS) LIMITED
and its wholly-owned Subsidiary Company DESOUTTER BROTHERS LIMITED
Consolidated Balance Sheet as at December 31st, 1951

	Authorized £	Issued and Fully Paid £
Share Capital:		
350,000 5½ per cent Cumulative Preference Shares of £1 each	350,000	350,000
1,400,000 Ordinary Shares of 5s each	350,000	350,000
	£700,000	700,000
Reserves and Surplus:		
Capital:		
Reserves arising on incorporation of Assets in Subsidiary Company		45,251
Revenue:		
Profit and Loss Account		8,047
Reserve for Income Tax, 1952–53 (proportion)		50,000
		803,298
Current Liabilities:		
Trade Creditors	23,614	
Sundry Creditors and Accrued Charges ..	8,637	
Provision for Final Dividend (net)	29,400	
Provision for Current Taxation (including Income Tax, 1951–52)	139,362	
		201,013
Commitments for Capital Expenditure not provided for in these Accounts amounted to approximately £24,000.		
		£1,004,311

	Cost or Net Book Value at January 1st 1948	Depreciation since January 1st 1948	
Fixed Assets:	£	£	£
Freehold Land and Buildings ..	88,579	—	88,579
Plant, Machinery, Motor Vehicles, Furniture and Fittings	61,212	18,228	42,984
Patents..	1,446	587	859
Goodwill	1,000	—	1,000
	£152,237	£18,815	133,422
The Company's Leasehold Premises were sold during the year.			
Current Assets:			
Stock and Work in Progress (as valued by the Directors, at or under cost)		186,818	
Trade Debtors and Payments in Advance ..		133,008	
£200,000 2½ per cent Savings Bonds, 1964–67, at Market Value		169,000	
Tax Reserve Certificates		169,425	
Bank Balances and Cash in hand		201,524	
			859,775
Formation Expenses, at cost			11,114
			£1,004,311

The Capital Reserves above arise:	£
Net Assets of the Subsidiary Company at the date of acquisition were:	
Fixed Assets	104,236
Current Assets	714,900
	819,136
Less Current Liabilities	73,885
	745,251
Purchase Consideration	700,000
Capital Reserve	£45,251

DESOUTTER BROTHERS (HOLDINGS) LIMITED
and its wholly-owned Subsidiary Company DESOUTTER BROTHERS LIMITED
Consolidated Profit and Loss Account for the Ten Months ended December 31st, 1951

	£	£
Depreciation		5,636
Directors' Emoluments (all drawn from the Subsidiary Company):		
Fees	250	
Management Salaries and Commission ..	12,038	
		12,288
Auditors' Remuneration		650
Provision for the balance of Income Tax upon the previous year's profits of the Subsidiary Company	71,009	
Taxation upon the profits and investment income of the current year:		
Profits Tax	58,000	
Income Tax (proportion)	52,934	
		181,943
Balance, carried forward		63,203
		£263,720

	£	£
Surplus upon Trading of the Subsidiary Company for the period, after charging £748 administration expenses of the Holding Company..		256,458
Income from:		
Royalties	683	
Government Securities and Interest Receivable (gross)	6,500	
Rents Receivable	37	
		7,220
Registration Fees		42
		£263,720

	£	£
Provision for the fall to date in market value of Government Securities		16,500
Dividends, less Income Tax:		
On 5½ per cent Cumulative Preference Shares ..	10,106	
Provision for a Final Dividend of 16 per cent upon the Ordinary Shares	29,400	
		39,506
Balance of Undistributed Profits carried forward:		
Transferred to the Holding Company	223	
Retained in the Subsidiary Company	7,824	
		8,047
		£64,053

	£
Balance, brought forward	63,203
Provision for Leasehold Dilapidations no longer required	850
	£64,053
Balance, brought forward	£8,047

and advertising policy. Among the steps taken to keep down manufacturing costs is the installation, at the Newton Road group of factories, of the company's own generators which will have the effect of 'off-setting to some extent the greatly increased cost of electricity from the Grid'.

Asset Replacement

An important contribution to current thought on the asset replacement problem is made by Mr Halford W. L. Reddish, F.C.A., chairman of The Rugby Portland Cement Co Ltd. He has found that the company's fixed assets on a current replacement basis have a surplus over book values of £1½ million allowing for depreciation sufficient to write off each asset over its remaining life. This, he points out, would raise the net asset total to something over £4,300,000 which gives a value of 34s to the ordinary shares and makes the net profit before taxation equal to a return of 9·7 per cent.

'I do not consider,' says Mr Reddish, 'that these asset valuations should be introduced into the balance sheet, nor that the depreciation charge should be based in future on these figures which in any case are unlikely to bear much relation to facts at the time when renewals actually take place.

'Our annual charge for depreciation is in our view higher than is strictly necessary to write off the assets during their effective life – many in fact have already been written off.

'The problem of asset replacement created by the sharp inflation of recent years is not in my view one to be dealt with by juggling with the depreciation charge. The two questions of depreciation and of currency inflation are quite distinct.'

Mr Reddish sees the answer to the problem in 'a level of profits sufficient both to support reasonable dividends and to permit of adequate retentions freed from the vicious and discriminatory taxation of recent years'.

Money Market

Treasury Bill applications totalled £240,180,000 on March 28th and bidding at £99 18s 2d the market received 81 per cent of requirements. The average rate was £2 7s 3·61d per cent, a new high level. This week the offer is increased to £220 million.

REVIEWS

Allocation of Central Administrative Expenses by G. L. Cramp, A.I.M.T.A., and E. S. King, A.I.M.T.A., A.S.A.A.

(Institute of Municipal Treasurers and Accountants (Incorporated), London. 7s 6d net)

In recent years, the system of grants in aid of individual services has been greatly extended, as have also the agency services performed by local authorities. It is therefore essential that all grant-aided services and rechargeable accounts should be fully debited with their fair share of administration expenses. In the absence of any uniform practice in the methods of allocating these costs, the Research Committee of The Institute of Municipal Treasurers and Accountants commissioned Mr Cramp and Mr King to make a study of the accounting methods employed by the various local authorities. A questionnaire was submitted to 172 authorities of whom 101 replied. The mass of material received, when sifted and classified, enabled the authors to formulate a number of conclusions and recommendations which, if studied by local government officials with the attention they merit, should make for a more scientific standard of allocation of this class of expense.

Foreign Tax and Trade Briefs by Walter H. Diamond

(Fallon Publications, New York)

The aim of this book is to provide under one cover the basic significant tax facts of the principal nations of the world so that the American business man, tax consultant, or foreign trade expert may obtain a comparative picture of the tax situation in each country.

It need hardly be said that this book is just as useful to the Englishman proposing to invest money or carry on remunerative activities abroad as it is to the American. It is attractively bound in leather in loose-leaf form, with a thumb index. For each country the tax information, and the trade information, are shown in a constant pattern so that comparison is easy and rapid. The countries themselves are grouped in such a way as to facilitate rapid reference.

The Principles of Auditing (Eleventh Edition) by F. R. M. de Paula, C.B.E., F.C.A.

(Sir Isaac Pitman & Sons Ltd, London. 25s net)

Although Mr de Paula states in the preface that the book has now reached middle-age, it still possesses, judging by this new edition, a youthful vigour and freshness which only continual pruning and constant revision can give to a text-book on such an evolutionary subject. Mr de Paula is a distinguished and highly individual writer who does not hesitate to express his views, even to the point of unorthodoxy, but he is always scrupulously careful to add the traditional view to his own so that the reader may judge for himself. The new material in this edition includes an appendix giving the eighth and ninth schedules of the Companies Act, 1948, and much of the text has been rewritten to give effect to the provisions of that Act and to the recommendations on accounting principles issued by The Institute of Chartered Accountants in England and Wales. The student is further aided by the numerous references to the literature of the profession which provide him with an extension of his reading, easily available and expertly chosen.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Are the Figures any Use ?

SIR, – If previously I had doubts as to the validity of existing accounting conventions (having regard to their limitations), those doubts were assuaged by reading the correspondence arising from the paper I gave recently at Birmingham (*The Accountant*, March 1st, 1952).

Not only conventions but words themselves would begin to lose their meaning if we were to adopt Mr West's novel idea that an amount set aside to finance stocks at enhanced prices is a *liability* (March 15th, 1952). *En passant*, I said that 'inflation' – not 'replacement cost accounting' – benefits debtors etc.

Mr Burton (March 29th, 1952) dislikes my simple *practical* reason for retaining the pound sterling as an accounting symbol, namely, that it is the current language of commerce. His own theorizing regarding the function of money as a measure and store of value would seem to premise a change in currency, rather than in accounting conventions. In my view, the primary function of financial accounting is recording, not measurement.

I share Mr Norris's dislike of red herrings (March 22nd, 1952). But is it a red herring to note that two advocates of the same accounting theory demonstrate, in their practical applications, that owing to inflation, depreciation provisions have been in the first case *inadequate* and, in the second, *excessive*? Mr Norris is too honest to deny one of my basic assertions (that inflation benefits debtors and the owners of tangible assets) but his cognition is not reflected in the accounting he advocates. 'Replacement cost' accountants (I.C.I. apart) record enhanced replacement values of assets only to the extent that the assets become depleted. Their accounting thus degenerates into a lop-sided system of single entry; hence the undue emphasis on the profit and loss account and the disparagement of the balance sheet.

Mr Norris seemingly denies the possibility of examining pleas for reduced taxation on their merits. Such a philomath as he needs no reminder from me that, on a national scale, we are presently living on capital. Surely then it is relevant to the plea of one category of taxpayers (that he must not only preserve intact his 'real' capital but augment it) that inflation has resulted in transferring to him a substantial part of the 'real' capital of others.

'Truth' is not decried by me, except in the limited sense that knowledge of absolute truth is denied to mortals. Unlike Mr Norris, however, I believe that theory is derived from practice and that the proper test of a convention is its *practical* use, rather than its conformity, or otherwise, with some speculative 'theoretical ideal'.

I am unversed in controversy wherein abuse replaces argument, but a few comments on Mr Pakenham-Walsh's strictures (March 29th, 1952) are perhaps permissible. My paper was lengthy because I attempted to argue logically from assertions of fact. Either my factual premises were accurately adduced, my arguments sound and my conclusions valid or, by reason of errors in my premises or logic, I reached inaccurate conclusions. Mr Pakenham-Walsh challenges none of my assertions of fact nor, except to a minor extent, my logic. His suggestion that my *belief* as to the primary cause of inflation is unsupported by authority does not, *per se*, invalidate that belief. On the contrary, if authority were reliable on this issue, maybe inflation would be less rampant

It is evident from his rhetorical question that Mr Pakenham-Walsh comprehends neither inflation, nor my 'thesis' (which was concerned not with the *consumer-end* but with the *supplier-end* of price relations in inflationary conditions). Having regard to rent control and subsidies, his choice of house-rents to illustrate the results of inflation is inapposite; and peculiar his view on rent determination. But for the limiting effects of rent control and subsidies, the pre-war and post-war houses, of similar accommodation, condition and environment, would command similar rents. Hence the satisfaction of the respective *owners*, expressed in profit ratio, would indeed approximate to 3 : 1. Such is the simple logic of inflation – however incomprehensible to Mr Pakenham-Walsh; and however 'mischievous' (*sic*) its publication.

Yours faithfully,

London, SW1 J. CLAYTON.

Stock Cost Determination

SIR, – The article in your issue of March 8th on this subject discusses the last-in-first-out (LIFO) method of stock valuation, and states:

> 'The main criticisms which have been directed against the LIFO method are that it gives a distorted trading result; that the extremes of profit caused by current economic conditions are minimized, thereby creating a false impression of stability, and that its primary purpose is the evasion or deferment of taxation commitments.'

This appears to me to be a most unfair statement; surely a truer one would be not that LIFO minimizes the extremes of profits but that other methods, and the first-in-first-out (FIFO) method in particular, exaggerate these extremes?

I agree that a great deal of the interest at present in LIFO may be because of the incidence of taxation; but that does not detract from its merits – and to state that 'its primary purpose is the evasion or deferment of taxation' is untrue. It is correct that LIFO will show smaller variations of profit yearly in a given number of years which represent a complete cycle than FIFO would – but this is precisely why it is

supported as it is felt that this represents the facts.

I suggest that FIFO gives an extreme impression of profit in a period of inflation and also over-emphasizes the extent of a depression – and consequently is one of the psychological causes of the trade cycle. That LIFO gives a different trading result from methods currently in use is agreed – but not that it 'distorts' these results.

Replacement cost accounting seems to me to be very desirable but, as this may be difficult in many cases, LIFO seems to be a good substitute for material costing. Further, in conjunction with a standard costing system a fairly accurate LIFO cost of material used could be obtained in total by adjustment of the material price variance. This could be done in monthly trading accounts as well as the year-end accounts and would be of great value.

May I also point out that the article on the next page in the issue of March 8th, on 'Trends in profits', which deals with certain misconceptions about profits, contains this statement:

> '. . . it is not unreasonable to conclude that the apparently large increase in profits which showed itself during 1951, sufficed to finance the replacement of stocks and fixed assets having regard to the relevant increase in prices. . . .'

Does not this add weight to the arguments in favour of LIFO?

Yours faithfully,

Stockport, Cheshire. D. G. A. OWEN.

Capital Allowances on Printing Type

SIR, – I was interested to read 'Napoleon's' letter (issue March 22nd) on the subject of capital allowances on printing type, as I run a small part-time printing business as a hobby.

I agree with the Inspector in that it is the usual practice for type to be treated on a renewals basis, but in my case the Inspector not only raised no objections but even volunteered the information as to initial and wear and tear allowances. There would appear to be no legal grounds for the Inspector's refusal to grant such allowances, and 'Napoleon' should press the matter.

The wear and tear rate allowed on type is 10 per cent which, since my type does not have heavy use, is ample in my case. In a full-time printing works, type would, however, have a very much shorter life (save possibly certain founts of display type) and it may well be more beneficial to 'Napoleon's' clients to claim renewals rather than the capital allowances.

Yours faithfully,

PRINTACIA.

Income Tax Act, 1952

SIR, – I confess to having been innocent enough to believe that the new Act merely consolidated and did not, with the exception I think of one minor point, alter the law. Having had occasion, however, to look at the proviso to Section 47, I am now prepared for anything. The proviso purports to give effect to Section 33, Finance Act, 1942, which allows the Revenue to raise assessments 'where any form of fraud or wilful default has been committed' as from the year of assessment 1936–37 onwards. In the new Act the time limit has been completely abolished by the omission of the reference to 1936–37. Now, therefore, the Revenue, where fraud is alleged, can go back as far as they like.

Yours sincerely,

Glasgow. A. G. McBAIN.

Medical Practitioners' Houses

SIR, – I would be interested to hear from practitioners concerning the proportion of establishment expenses allowed as a deduction for income-tax purposes, where a medical man has his surgery or consulting room forming part of his private house. My experience is that no more than one-third is allowed, but clients indicate to me that medical practitioners have been advised through their professional journals that one-half is the usual proportion. Readers' experiences would be appreciated.

Yours faithfully,

SINBAD.

Disclosure in Accounts

SIR, – The secretary of a private limited company is also a director of its subsidiary company.

As secretary of the parent company, his emoluments are, say, £500. As director of the subsidiary company his emoluments are £300.

In the annual accounts of the company, his salary as secretary is not disclosed, but his fees as director are shown as:

'Director of subsidiary company other than director of parent company – £300.'

I should be very glad if you would let me know if this is correct procedure, and also whether his name should appear anywhere as a director of the subsidiary company in the printed accounts sent to the shareholders.

Yours faithfully,

Salisbury, Wiltshire. PAUL M. D. FOLKES.

Monetary Values

SIR, – Your columns in particular, and the more profound minds of the financial world in general, have lately been occupied with balance sheets in the future, replacement costs, inflating and deflating spirals and possible adaptations of accountancy techniques to meet the rise and fall of monetary values.

May I, as a young reactionary, suggest that the essence of the subject is being submerged by a sea of our learned colleagues – economists, experts and accountants. Finance, in my opinion, is the use of money to beget money; accountancy is the measure of that use and that begetting. Now, money has many qualities, most of which have been discussed at length recently, but the essential quality of money, say sterling, is that although £1 may be worth 17s

this month and 18*s* 3*d* next month, £1 never becomes 17*s* nor 18*s* 3*d* but remains £1, or – in case the point is mystic – 20*s*.

The rise and fall in the value of the pound is an important factor in financial operation (especially in arbitrage), that is, the use of pounds to beget pounds; but without this fixed quality of the pound no use could be made of pounds at all. Knowledge – here ascertainment past, present and future of the mode and results of use, called accountancy – proceeds ever from a known base by which the unknown is determined and made known.

To adjust the known value of objects – land, buildings, plant, machinery, goods, etc. – which are expressed in pounds, by way of 'allowing for' the value of the pound, is to remove this known quality of the pound, namely, the concept that it contains neither more nor less than twenty shillings and so is to remove the only firm knowledge we can have in a financial world of infinite change.

To purchase with twenty shilling pounds more goods to replace goods bought and sold with twenty shilling pounds we reserve or set aside twenty shilling pound profits. And although the quantity of pounds we set aside may be related economically to, though rarely I think in business influenced by, the value of the pound, the value of the twenty shilling pound enters the financial picture only when we begin to deal with pounds as a commodity – which we do by means of and by reference to its fixed twenty shilling quality.

The figure 'twenty' is, of course, purely arbitrary tradition; that for any purpose outside finance the pound sterling is rarely at par is an academic point which affects the financial use of the twenty shilling pound as little as the use of the French metre is affected by its having, in fact, no exact relationship to the dimensions of the earth.

Yours faithfully,

Ceylon. J. S. THWAITES, A.C.A., A.I.ARB.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

In re Howell

In the High Court of Justice (Chancery Division)
January 24th, 1952
(Before Mr Justice VAISEY)

Estate duty – Gifts free of death duties – Settled property – Whether freedom from duty applicable on death of life tenant – Finance Act, 1894, *Section* 2 – *Finance Act,* 1914, *Section* 14.

The testatrix gave a freehold house to trustees on trust to pay the income to her niece for life, and then for the niece's son absolutely. The will directed that 'all legacies and bequests . . . and all devises given by this my will . . . (except the gift of residue) shall be enjoyed free of death duties'. The residue was left to the trustees, after payment of debts, funeral and testamentary expenses and death duties, for the testatrix' nieces in equal shares absolutely.

The trustee took out a summons to determine whether the direction in the will that all legacies, bequests and devises (except the gift of residue) should be enjoyed free of death duties applied so as to exonerate the house from estate duty payable on the death of the tenant for life, in which case the trustee would have to postpone the distribution of the residue accordingly.

Held, that death duties payable otherwise than on the death of the deceased were not included within a provision in the will for freedom from duty, unless the will contained a clear indication to that effect; that, in the present case, the will did not contain such an indication in unmistakable terms; and that, therefore, the estate duty payable on the death of the life tenant would be payable out of the settled property itself.

Higgs *v.* Olivier

In the Court of Appeal
February 4th, 1952
(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice SINGLETON and Lord Justice HODSON)

Income-tax – Actor – Covenant not to appear in film – Lump sum paid therefor – Whether part of receipts of profession – Income Tax Act, 1918, *Schedule D, Case II.*

In September 1943, the respondent entered into a contract to produce the film 'Henry V', and during the currency of the agreement, which was till September 1944, the respondent was to devote his whole time to the film company's service. The respondent rendered these services, and was paid a certain sum therefor.

The film was produced at Christmas, 1944, and at first it succeeded only slowly. In July 1945, in order to promote its success the respondent entered into another agreement with the film company, whereby, in return for £15,000, he covenanted that for eighteen months he would not appear in any capacity in any film for anybody other than the film company.

The Special Commissioners decided that this agreement could not be read as one with the service agreement of September 1943; that the £15,000 did not come to the respondent as a part of his income from his vocation as an actor; that it came to him for refraining from carrying on his vocation; and that it was a capital receipt.

Held (affirming the decision of Mr Justice Harman), that the Special Commissioners' decision was correct.

C.I.R. *v*. Dowdall O'Mahoney & Co Ltd

In the House of Lords
February 25th, 1952

(Before Lord OAKSEY, Lord REID, Lord RADCLIFFE and Lord TUCKER)

Excess profits tax – Deduction – Company controlled in Eire – Trading in United Kingdom – Whether entitled to deduct Eire taxes – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (2) – *Finance* (*No.* 2) *Act,* 1939, *Section* 12 (2).

The company was incorporated and resident in Eire, and its business was managed from there. The company had two branches in England; and it contended that, in computing the profit of those branches it was entitled to deduct a portion of the Eire taxes which it had paid in respect of the whole of its profits. The Special Commissioners allowed the appeal.

Mr Justice Croom-Johnson ordered that the stated case should be remitted to the Special Commissioners for further information to be given as to the reason for their decision. The Court of Appeal decided in favour of the company.

Held (reversing the decision of the Court of Appeal), that the sums in question were not deductible in computing the company's profits for excess profits tax.

Bank voor Handel en Scheepvaart *v*. Custodian of Enemy Property

In the High Court of Justice (King's Bench Division)
January 18th, 1952

(Before Mr Justice DEVLIN)

Income-tax – Assets held by Custodian – Investment of assets – Payment of income-tax on income – Transfer of proceeds to owner – Whether income-tax deductible from income received by custodian – Crown servant – Income Tax Act, 1918, *Schedule D, Miscellaneous Rule* 1 – *Trading with the Enemy Act,* 1939, *Section* 7 (1) – *Finance Act,* 1944, *Section* 42; *Schedule IV, Part I – Treaty of Peace* (*Hungary*) *Order,* 1948 (*No.* 116), *Article* 1, (3) (*i*).

In 1940 gold belonging to a Dutch company was transferred to the Custodian of Enemy Property, and shortly afterwards the Custodian sold the gold and retained the proceeds as enemy property. Later he bought Treasury bills at a discount, and made a profit and paid income-tax thereon. In 1950 the proceeds in the hands of the Custodian were transferred to the Administrator of Hungarian Property. In 1951 the plaintiff obtained judgment against the Administrator in respect of the sale of the gold, and it was conceded that any sums earned by the use of the proceeds while in the hands of the Custodian were also payable to the plaintiff. The plaintiff then applied in the action for the determination of the question whether the Custodian was entitled to deduct income-tax paid by him on the profit from the Treasury bills.

Held, that the Custodian, in using the income of the proceeds of the sale of gold, was an official of the Crown; that he received the proceeds for a Crown purpose; and that apart from the Finance Act, 1944, Section 42, Schedule IV, Part I, which was not relied upon, the Custodian was exempt from liability to income-tax; and that therefore the plaintiff was entitled to the sums earned by the proceeds of sale without the deduction of tax therefrom.

Star Cinemas (London) Ltd and Majestic (Derby) Ltd *v*. C.I.R.

In the Court of Appeal
January 23rd, 1952

(Before the MASTER OF THE ROLLS (SIR RAYMOND EVERSHED), Lord Justice JENKINS, and Lord Justice HODSON)

Excess profits tax – Avoidance or reduction of liability – Lease of cinema – Purchase of shares in company owning cinema – Surrender of lease – Whether main benefit was avoidance or reduction of liability to tax – Finance (*No.* 2) *Act,* 1939, *Sections* 12 (4), 16 (3) – *Finance Act,* 1941, *Section* 35 – *Finance Act,* 1944, *Section* 33 (3).

On February 15th, 1940, the second appellant (Majestic) leased its cinema to the first appellant (Star) for seven years from March 4th, 1940, the lessee having the right to terminate the lease at the end of the fifth year, and also having the right to purchase the freehold for £23,000 within the first five years of the lease. The rent was a progressive rent of from £780 to £1,040, and, as an additional rent, Star had to pay a further sum, of about £15 a year, representing half the amount of the fire insurance premium.

On January 5th, 1943, the whole of the shares in Majestic were purchased as to 7,500 by Star, as to 2,400 by the controlling shareholder of Star, and as to the remaining 100 by his wife. The cinema had cost £30,000, and Majestic was entitled to a standard profit of £3,000 pursuant to Section 13 (9) of the Finance (No. 2) Act, 1939. The cinema had been carried on at a loss up to March 4th, 1940.

At the date of the acquisition of the shares in Majestic that company had an overdraft of about £20,000, and the bank had required that the overdraft should be reduced at the rate of £2,000 a year. It was a part of the sale transaction that the £6,000 which was paid for the shares should be paid by the vendor into the account of Majestic so as to reduce the overdraft to £14,000; and that the purchaser should give his personal guarantee, in substitution for that of the vendor, to repay the overdraft at the rate aforesaid.

Subsequently attempts were made to induce the bank to consent to the overdraft being reduced by sums which Majestic could pay out of the rent that it received from Star, but the bank would not agree to this. Attempts were made to borrow £14,000, but

without success. It was suggested by the bank manager that, in order to enable Majestic to meet its obligation to the bank, the lease should be surrendered to Majestic, so that the profits from the cinema could be received by that company, and the repayments to the bank be made thereout. It was in pursuance of this arrangement that the surrender of the lease took place on September 6th, 1943.

During the accounting period to April 30th, 1944, the overdraft of Majestic was reduced to £10,455, but during the following period it increased to £15,178, and during this period Majestic made a loan of £10,000 to an associated company.

The Crown did not dispute the evidence, that was given at the appeal before the Special Commissioners, to the effect that avoidance or reduction of liability to excess profits tax was not, in fact, the main purpose, or one of the main purposes, for which the surrender of the lease was effected; and the only question was whether the main benefit to be expected from the surrender, during the currency of excess profits tax, was such avoidance or reduction, so that Section 33 (3) of the Finance Act, 1944, applied. The Special Commissioners decided that the main benefit to be expected was such avoidance or reduction of liability.

Held (affirming the judgment of Mr Justice Romer), that the Special Commissioners' decision was correct.

James Snook & Co Ltd *v.* Blasdale

In the High Court of Justice (Chancery Division)
January 16th, 1952

(Before Mr Justice DONOVAN)

Income-tax – Compensation for loss of office – Sale of shares in company – Payment to retiring directors as compensation for loss of office – Whether sums so paid deductible in company's tax computation – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*a*).

The shareholders in the appellant company agreed to sell their shares to another company, and the directors, who were also the vendor shareholders, agreed to resign their offices as directors. The purchasing company agreed to procure that the appellant company should pay £32,492 to the retiring directors as compensation for the loss of their offices, and to pay £1,128 to the auditor as compensation for the loss of his office. After this agreement had been executed it was decided that two of the directors should continue to hold office, and they did not receive any compensation, so that the actual amount of compensation paid was £31,818. This sum was subsequently paid in varying amounts to the two retiring directors, and to the retiring auditor. The resolution for the payment was passed at a general meeting of the appellant company, but there was no evidence as to whether the resolution was passed in order to carry out the vending agreement, or in order to advance the company's business.

It was contended on behalf of the appellant company that the £31,818 was wholly and exclusively laid out or expended for the purpose of that company's trade, and that it was deductible in computing the company's profit for tax purposes. The General Commissioners rejected this contention, and confirmed the assessment in an agreed amount.

Held, that the General Commissioners' decision was correct.

Union Corporation Ltd *v.* C.I.R.
Johannesburg Consolidated Investment Co Ltd *v.* C.I.R.
Trinidad Leasehold Ltd *v.* C.I.R.

In the Court of Appeal
February 22nd, 1952

(Before the MASTER OF THE ROLLS (SIR RAYMOND EVERSHED), Lord Justice JENKINS, and Lord Justice HODSON)

Profits tax – Exemption from distribution charge – Company resident in United Kingdom – Whether ordinarily resident abroad – Whether relief applicable – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 12 – *Finance Act*, 1937, *Sections* 19, 20 – *Finance Act*, 1946, *Section* 44 – *Finance Act*, 1947, *Sections* 30, 31, 39.

All three companies claimed exemption from distribution charge to profits tax on the ground that, although they were ordinarily resident within the United Kingdom, they were also ordinarily resident outside the United Kingdom, the first two companies in South Africa, and the third company in Trinidad; and that they were, therefore, exempt by virtue of Section 39 (1) of the Finance Act, 1947.

The South African companies were incorporated in the former South African Republic (now the Transvaal Province). The companies adopted new articles of association under the procedure in the Companies Act, 1926 (South Africa), and the new articles were registered at Pretoria, in accordance with Section 17 of that Act, and they are the articles now in force. The registered office of each company was in Johannesburg, and this is obligatory under the last-mentioned Act. Of the ten directors, five resided and performed their duties in the United Kingdom, and five resided and performed their duties in South Africa. The board meets in London. Certain of the directors held powers of attorney widely expressed.

The activities of the companies were carried on partly in South Africa and partly in England. The South African activities consisted of the management and development of gold mines, and the English activities consisted mainly of the buying and selling of shares.

All general meetings were held in South Africa. The accounts were made up and audited in South Africa, and were drawn up in South African currency, United Kingdom currency being used at par. Dividends were distributed from South Africa or

England according to the address of the shareholder, and transfers of shares were registered in Johannesburg or London. Share certificates were issued according to where the instrument of transfer was lodged. The register of members was kept in Johannesburg, as was required by Section 25 of the Companies Act, 1926 (South Africa). The common seal was kept in Johannesburg, and the official seal in London. The great preponderance of employees was in South Africa.

The Trinidad company was incorporated in the United Kingdom, and the directors held their meetings here. All general meetings were held here, and the common seal was kept here. The accounts were prepared and audited in the United Kingdom. The company's trading activities took place in Trinidad, where it operated oil wells on a large scale, and where all its employees were, except the staff of the London office. There were no trading activities in the United Kingdom except those connected with the control of the board. The chairman and the managing director paid frequent visits to Trinidad.

The Special Commissioners decided (*a*) that Section 39 (1) of the Finance Act, 1947, applied to any company which was ordinarily resident both outside and inside the United Kingdom; but (*b*) that none of the companies was ordinarily resident otherwise than in the United Kingdom.

Held, (*a*) (affirming the judgment of Mr Justice Harman) that Section 39 (1) of the 1947 Act applied only to a company which was ordinarily resident abroad, and was not ordinarily resident within the United Kingdom; (*b*) (varying the judgment of Mr Justice Harman) that (if it had been necessary to decide the point) the two South African companies were ordinarily resident in South Africa, and the Trinidad company in Trinidad, as well as in the United Kingdom.

Bourne & Hollingsworth Ltd *v.* C.I.R.

In the High Court of Justice (Chancery Division)
February 25th, 1952
(Before Mr Justice DONOVAN)

Profits tax – Distribution – Period in respect of which payment was made – Payment out of accretion of capital assets – No period expressed in resolution – Finance Act, 1947, *Sections* 35, 36.

The company's capital consisted of preference and ordinary shares. The preference shares were entitled to a dividend of 7½ per cent, plus a quarter of any dividend distributed on the ordinary shares in excess of 10 per cent, but the total preference dividend could not exceed 10 per cent. In 1940, £20,000, representing accretions on sales of investments in previous years, was transferred to a Contingencies Reserve Account, and at February 13th, 1947, which was the accounting date in that calendar year, the sum of £9,120 14*s* 4*d*, also representing such profits, was included in the credit balance in the profit and loss account. On March 6th, 1947, a further accretion of £2,011 11*s* 0*d* on sales of investments was realized.

On March 17th, 1947, the company, at an extraordinary general meeting resolved that

> 'the sum of £20,000 standing to the credit of the Contingencies Reserve Account and the sum of £10,916 13*s* 4*d* standing to the credit of the profit and loss account, both representing realized accretions of capital assets arising from the sale of investments be divided amongst the members . . .'

This total sum of £30,916 13*s* 4*d* was distributed to the shareholders forthwith.

Apart from certain trust holdings there were only three shareholders, and one of them was the first-named trustee in all the trust holdings except one, and of that another of the three individual shareholders was the first-named trustee. The first-named of joint holders was the person entitled to vote in respect of joint holdings.

The idea of a capital distribution was suggested to the governing director by the secretary of the company, and the former discussed it with his two brothers, who were the other two individual shareholders. The profit of the accounting period ended February 13th, 1947, was disappointing, and the intention was to supplement it by a capital distribution, and everyone present at the extraordinary general meeting of March 17th, 1947, knew that the £30,916 13*s* 4*d* came out of the profits of earlier periods. The matter was discussed at a directors' meeting on March 5th, 1947, on the footing that the capital distribution was to be for the previous accounting period. The distribution could not have been made for the period ended February 13th, 1948, because certain accounting problems would have arisen.

It was contended on behalf of the company that as the £30,916 13*s* 4*d* was a division of a capital surplus, it was not a distribution within Sections 35 and 36 of the Finance Act, 1947; and (in the alternative) that the sum was expressed to be paid in respect of the chargeable accounting period ended February 13th, 1947, and therefore that the case was within Section 35 (1) (*a*) of the Act of 1947. It was contended on behalf of the respondents that the £30,916 13*s* 4*d* was a distribution for the purposes of profits tax; that it was not a dividend expressed to be paid in respect of the chargeable accounting period ended February 13th, 1947, and therefore that the case fell within Section 35 (1) (*b*) of the Finance Act, 1947. The Special Commissioners decided in favour of the respondents on both points. On the first point the Special Commissioners took the view that a distribution for profits tax purposes could be made out of a capital surplus, because that did not involve the charging of capital to profits tax, but merely affected the rate of tax on trading profits. On the second point, they decided that the distribution had not been expressed to be in respect of the period ended February 13th, 1947.

Held, that the Special Commissioners' decision was correct.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

FIRST ANNUAL GENERAL MEETING

The first annual general meeting of members of The Institute of Chartered Accountants of Scotland since the amalgamation of the three Scottish chartered accountancy bodies was held at 27 Queen Street, Edinburgh, on Wednesday, March 26th, 1952.

Oldest Member of the Institute

Mr R. G. Simpson, M.C., the retiring President, who took the chair for the first part of the meeting, expressed his pleasure at seeing in attendance at the meeting the oldest member of the Institute, Mr Allan Rogers Yule, of Edinburgh, who was admitted in 1884 and is in his ninety-second year. Amid applause, Mr Yule shook hands with the President, who commented with admiration upon the contrast between Mr Yule's dark head of hair and his own white one.

Report and Accounts

The annual report of the Council[1] and the accounts of the Institute for the period June 1st to December 31st, 1951, which had been circulated, together with the President's address to members, were taken as read, and the report and accounts were adopted unanimously.

The accounts of The Society of Accountants in Edinburgh, of The Institute of Accountants and Actuaries in Glasgow and of The Society of Accountants in Aberdeen for the first half of 1951 were also adopted unanimously.

Office-bearers for 1952-53

The President declared that the following had been elected as office-bearers of the Institute for 1952–53:

President: Sir David Allan Hay, K.B.E. (Glasgow).

Vice-President: Mr John L. Somerville, F.R.S.E. (Edinburgh).

Members of Council – Four members practising in Edinburgh and district: Messrs Charles R. Munro, William Watson, C. G. M. Pearson and James A. Walker, C.B.E;

Six members practising in Glasgow and district: Sir Ian Bolton, Bt., O.B.E., D.L., J.P., Messrs Ian W. Macdonald, M.A., Septimus E. Houstoun, M.A., Professor Robert Browning, M.A., LL.B., Messrs John H. Johnston and J. Campbell Davies, M.C., T.D;

Two members practising in Aberdeen and district: Messrs E. Birnie Reid, O.B.E., and C. G. Kennaway, M.A., B.SC.;

Two members practising in Dundee and district: Messrs Andrew W. Mudie and S. Gordon Y. Pool;

Three members practising anywhere in Scotland: Messrs P. McGregor Jackson (Perth), Robert G. J. Kirk (Dumfries) and John J. Welch (Hawick);

Two members practising in the United Kingdom outside Scotland: Messrs Charles D. Gairdner (London) and Thomas Lister, M.A. (London); and

Two members not in practice: Messrs Norval M. Lindsay (Glasgow) and J. G. Girdwood, C.B.E. (London).

Auditor: Mr R. Ian Marshall, B.COM. (Edinburgh).

On the motion of the President, the thanks of the Institute were expressed to Messrs John F. Carson, Gordon J. Innes and R. Ian Marshall, the retiring Council members, for their services.

Mr William Hamilton Gray (Edinburgh) was re-elected as the Institute's representative on the Board of Trustees of the David Murray Almonry Fund for 1952–53.

On the motion of the President, 126 new members of the Institute were elected.[2]

SIR DAVID ALLAN HAY, THE NEW PRESIDENT

Mr Simpson then invested Sir David Allan Hay with the presidential badge and Sir David took the chair.

The new President expressed his thanks for the confidence placed in him. For years it had been his ambition that some day there would be a union of the three Societies and now that that had been accomplished he was particularly honoured to become President at this first annual general meeting. They were all now members of one Institute and could speak with one voice on behalf of Scottish chartered accountants.

The Former Organization

There had been a great deal of work and discussion in bringing about the union. But those who had had experience of the former organization, under which the main questions, such as Parliamentary Bills, were dealt with through a Joint Committee, realized that, however hard and devotedly the committee worked, there was a very awkward degree of additional trouble because the consent of the three councils had to be got before they could move at all. They hoped that now they could attend conferences and meetings in London – which were not infrequent – and go there without having to say 'I have to go back and secure the consent of this, that and the other'. They had already found the advantage of that unified method of working in the ten months of their new machinery.

A Tribute to the Secretary, Mr McDougall

In Mr McDougall they had been fortunate in their choice of Secretary and had found one who had devoted himself heart and soul to the work of the Institute. The Council was satisfied with the set-up on which it now relied at the head office in Edinburgh under Mr McDougall and his able assistants, and they must make certain that the new organization would function in first-class order.

A Tribute to the Secretaries of the Three Societies

They looked back with gratitude on the work done by the three Secretaries – of the Edinburgh, Glasgow and Aberdeen Societies – in the midst of busy professional lives, and everyone realized that what Mr James A. Walker, Mr William L. Davidson and

[1] See leading article in *The Accountant*, March 22nd, 1952.

[2] Names not reproduced. – Editor.

Mr L. M. Davidson had done so whole-heartedly towards the amalgamation was beyond all praise.

Sir David expressed his highest hopes for the future of the Institute and assured the meeting that he would do all in his power to help forward the work of maintaining the Institute's repute in the accountancy world at the very highest standard. (Loud applause.)

The Institute's Badge of Office

At the Council meeting immediately preceding the annual general meeting Mr Simpson had made a delightful announcement. Each of the three Societies had its President's badge of office and Mr Simpson had thought it appropriate that there should be a new badge for the Institute: he had accordingly asked permission – and the Council had thanked him for his most generous offer – to give to the Institute a new badge of office.

This would be a permanent record of Mr Simpson's work for the Institute in bringing about the union and would keep his name and memory as an inspiration to them all. The Institute thanked him for this kindly thought on his demission of office and expressed its appreciation of the work which he had done. (Loud applause.)

Address to the New Members

Sixty-five of the new members were then introduced to the meeting and the President welcomed each one individually.

Addressing them, the President congratulated them on qualifying and assured them of a welcome from all other members Such was the virility of the profession and the chances of longevity in it that there was one member present who was aged 92. (Applause.)

The new members had got over the drudgery of their studies and the nightmare – which had beset every member in his time – of wondering whether they would succeed in qualifying. Their principal business must now be to learn their business. Book-work was all very necessary, but now they must make their careers, assert their own personalities and show that they were well worthy of their office and entitled to the confidence of the public in every way.

Standards of the Profession

That confidence and that success could only come, whether in private practice, business or industry, if they observed the standards of the profession.

Firstly, there should be an unending and lifelong loyalty to the profession to which they had pledged themselves, and to the Institute of Chartered Accountants of Scotland.

Secondly, they must respect the confidence of clients and employers. This was one of the great lessons to be learned at the beginning of one's apprenticeship, but they must never forget it in their future practice. The information they gained in confidence in their professional lives might guide their minds and their actions, but did not belong to them: the information belonged to their clients and was not for general discussion.

Thirdly, their signature must be their bond. That signature, which was their assurance of their best endeavour and utmost care, should be jealously guarded and not lightly put on any document whatever. It stood for integrity, the function and very inspiration of the work of the profession.

Fourthly, they must keep studying, so as to keep abreast of changes in legislation and practice.

Lastly, they must guard their health. Good health was a professional man's biggest asset: without it, he became a burden on others.

Advice from Senior Members of the Profession

In conclusion, Sir David stressed how interesting the work of the profession could be: if they found it becoming otherwise they should find some other occupation. He was sure that if ever they were in difficulty as to what their professional conduct should be they had only to seek advice from senior members of the profession. It was a matter of professional loyalty that such advice should be forthcoming and they would never find themselves disappointed in the welcome that they would receive or the help that would be given.

CURRENT LAW

Shares in Names of Trustees

Part of a testator's estate consisted of shares in a private company, three of whose directors were his trustees. Voting power was entirely in the ordinary shares, all but two of which were in the name of the testator. The plaintiff in *Re Butt (deceased); Butt v. Kelson and Others*, was a beneficiary, having an interest in the residuary estate which included the bulk of the ordinary shares and he claimed production of documents concerning the company, in the possession of the defendants as trustees of the testator.

The Court of Appeal refused to admit his claims. He was not a registered shareholder and the articles provided that no member other than a director should have a right of inspection except with the consent of the directors or of the company in general meeting, or by statute.

The beneficiaries as a whole were entitled to be treated as registered shareholders in respect of the trust shares and could compel the trustees to use their (the beneficiaries') votes as they (the beneficiaries) or the Court (in the event of disagreement) thought fit. (*Law Journal*, January 18th, 1952.)

Property Passing at Death: Estate Duty

A settlor settled property on himself and his wife, an annuity of £400 to be paid from the income to her and the balance to him. If either died, the income was to go to the survivor with remainder to the children absolutely. On the husband's death, the Crown claimed estate duty on the whole estate, making no allowance in respect of the wife's annuity which ceased upon the husband's death.

Harman, J., held that the Crown was so entitled, the cesser of the wife's annuity and the creation of the new interest in the entire income constituting a passing at death of the 'slice' of the fund necessary to provide the annuity (Finance Act, 1894, Section 1, as amended by Finance Act, 1938, Section 48). (*Lambton's Marriage Settlement; May and Another v. Commissioners of Inland Revenue.*) (*Law Times*, January 18th, 1952.)

THE INTERNATIONAL CONGRESS

REQUESTS TO MEMBERS OF SPONSORING BODIES

EARLY REPLY TO QUESTIONNAIRES

A considerable number of members of the sponsoring bodies of the Sixth International Congress on Accounting, 1952, who have intimated their intention to attend the Congress to be held in London next June, have yet to inform the Congress office of their requirements in tickets both for the business sessions and the social events.

The Secretary would very much appreciate an early reply to the questionnaire which has already been circulated so that the work of allocating tickets can be commenced.

DELEGATES AND VISITORS FROM OVERSEA

Assistance in Welcoming Delegates and Visitors

To assist in making delegates, visitors and their ladies feel welcome during their stay in this country, the Council of the Congress wishes to appoint liaison officers (ladies and gentlemen) on a voluntary basis, with duties as follows:

- to welcome delegates and visitors at their hotels on arrival in London;
- to ensure that delegates and visitors understand how to get to the right place at the right time for business and social functions;
- to assist in any language difficulties which may arise at business sessions or social functions;
- to advise and assist on other matters, where possible and if required to do so;
- to act as stewards at the receptions and at the ball.

Members of the bodies sponsoring the Congress – and their families – are invited to offer their services, preferably during the whole period, June 14th to 20th, or for shorter periods should that not be possible.

Registration and Reception of Delegates and Visitors

On Sunday and Monday, June 15th and 16th, delegates and visitors will be registering their arrival at the Royal Festival Hall, and to ensure that registration proceeds smoothly it will be necessary for the Congress staff to be augmented.

Additional staff will be required behind the counter and at the entrance to the hall – the former to assist in registration, and the latter to ensure that delegates and visitors are directed to the individual dealing with their particular country or organization.

Here again the Council of the Congress appeals for volunteers from members of the sponsoring bodies and their families: those for duties at the registration counter should be prepared to give their services on both Sunday and Monday and to attend for instruction on a day in the previous week. Those wishing to direct delegates and visitors to the registration counter may volunteer for Sunday or Monday or both days.

Ladies of Delegates and Visitors

The Ladies' Committee of the Congress is arranging for the entertainment of the ladies of delegates and visitors during the business sessions of the Congress and is most anxious that facilities should be available for giving the ladies any assistance they may require in shopping, sight-seeing, and so on.

Help is required from the families of members of the sponsoring bodies; names of volunteers to act as shopping advisors and shopping guides, for duty at the ladies' information bureau and in the ladies' rest room, will be gratefully received. Offers of assistance may be for the whole of the period, June 16th to 20th, or for specific days.

Languages

It is not necessary that all those volunteering their services should speak a foreign language, but ability to do so will be an advantage in certain cases. The languages which may be required are Danish, Dutch, Finnish, French, German, Italian, Norwegian, Spanish, Swedish.

Offers of Assistance

The Council of the Congress will be most grateful if those willing to assist will kindly send the following particulars to the Secretary.

Name, address and telephone number.

Days and times available, commencing on Saturday, June 14th, and terminating on June 20th.

Languages.

Duties preferred – liaison officer; reception counter (if for service at the registration counter, date during the week ending June 14th when it is convenient to attend for instruction); directing people to reception counter; shopping advisors; shopping guides; ladies' information bureau; ladies' rest room.

Whether in possession of a motor-car and willing to use it in connexion with Congress duties.

HOSPITALITY TO DELEGATES AND VISITORS FROM OVERSEA

There are certain gaps in the official programme of social events for delegates, visitors and their ladies, notably:

Luncheon on June 16th.

Dinner before or after the theatre on June 17th.

Entertainment for ladies of delegates and visitors and their ladies unable to attend Guildhall banquet on June 18th.

Dinner on June 19th.

Dinner on June 20th.

The sponsoring bodies of the Congress will be holding luncheon parties for a limited number of delegates and their ladies on June 16th, but it will not be possible, for reasons of space, for some delegates and their ladies, and for the majority of visitors and their ladies, to be invited to these luncheon parties.

No arrangements have been made by the sponsoring bodies for official dinner parties on June 17th. On June 18th, it is hoped that a reception or theatre

party can be arranged for those unable to attend the banquet, but the arrangements will not include dinner. No arrangements have been made by the sponsoring bodies for dinner on either June 19th or 20th.

The Council of the Congress would therefore welcome offers of hospitality to delegates, visitors and their ladies from firms and others on these occasions. Such offers would be gratefully received by the Secretary of the Congress who will gladly discuss the subject with those willing to assist.

ADDRESS FOR COMMUNICATIONS

All communications should be sent to the Secretary, Sixth International Congress on Accounting, 1952, 2 Salisbury House, London Wall, London, EC2. Telephone: Monarch 6865.

CONFERENCE AT BLACKPOOL

North Lancashire Chartered Accountants

The second one-day conference of the North Lancashire Branch of the Manchester Society of Chartered Accountants was held at *The Queen's Hydro*, Blackpool, on Saturday, March 29th.

There were about sixty members present, coming from Barrow and Ulverston, Blackburn and district, Blackpool and Fylde, Burnley, Nelson and Colne, Chorley, Fleetwood, Kendal and Ambleside, Lancaster and Morecambe, and Preston; in addition there were also present about thirty ladies and guests.

Annual General Meeting

The Conference assembled in the morning when coffee was served in the lounge, after which the members of the Branch adjourned for the fourth annual meeting at which Mr Guy Waterworth, F.C.A. (Blackburn), took the chair.

The report of the Committee which had been circularized and which showed a membership at January 31st, 1952, of 210, was received as read. The meeting confirmed the appointment of six members of the Committee as follows: Messrs A. Bleazard, F.C.A. (Blackpool and Fylde); J. Goulding, F.C.A. (Chorley); T. Thornton, A.C.A. (Burnley); A. E. Willmoth, A.C.A. (Preston); D. C. Norris, B.SC., A.C.A. (Blackburn), and D. H. Preston, A.C.A. (Fleetwood). In addition the following four members were elected to fill vacancies arising on the Committee: Messrs G. A. Box, A.C.A. (Blackpool); N. Pritchard, A.C.A. (Lancaster); J. E. Sagar, A.C.A. (Blackburn); and G. Waterworth, F.C.A. (Blackburn).

Mr W. St L. Palmour, F.C.A. (Preston), was re-elected as the Branch representative to the Committee of the Manchester Society, and Mr J. Hacking, A.C.A. (Lancaster), was re-elected Hon. Auditor.

Brains Trust

At the conclusion of the meeting the first session of a 'Brains Trust' took place with Mr G. Waterworth as Question Master. The panel consisted of Mr F. Carruthers, A.C.A. (Manchester), and Mr F. M. Gilliat, F.C.A. (Manchester), both members of the Taxation and Research Committee of the Institute, together with Mr H. T. Nicholson, F.C.A. (London), and Mr J. S. Harrower, F.C.A. (Manchester), who kindly deputized for Mr E. G. Turner, M.C., F.C.A., who was absent through illness. A number of interesting questions on a wide variety of subjects concerning the profession and the Institute were put up for the panel's comments.

Luncheon

Members, ladies and friends were joined at luncheon by the President of the Institute, Mr C. W. Boyce, C.B.E., F.C.A., and Mrs Boyce, and the Deputy Mayor of Blackpool, Alderman A. Salisbury. After the loyal toast proposed by the chairman, Mr Guy Waterworth, Mr T. L. Poynton, F.I.M.T.A., Borough Treasurer of Blackpool, proposed the toast of 'The Institute of Chartered Accountants in England and Wales' and Mr Boyce responded.

The toast of 'The County Borough of Blackpool' was proposed by Mr Mark Wheatley Jones, F.C.A., President of the Manchester Society, in a very amusing speech. Alderman A. Salisbury, who replied, gave the Institute of Chartered Accountants a cordial invitation to hold an autumnal conference in Blackpool. Mr N. Pritchard, A.C.A., of Lancaster, proposed the health of the guests and Mr H. T. Nicholson, F.C.A., responded.

President's Address

The President of the Institute then addressed the Conference, saying:

'During his year of office the President of the Institute is called upon to attend, in his representative capacity, many functions and the annual dinners of all the district societies and it has been laid down that he cannot be expected to attend similar functions arranged by branch societies unless they happen to be of an inaugural character. I felt, however, that I could make an exception in the case of the one-day conference arranged by the North Lancashire Branch of the Manchester Society if for no other reason than I am a native of the neighbouring county of York and that it would be quite unthinkable for a Yorkshireman to shirk an encounter with his traditional foes on the other side of the Pennines. . .

'During the past year the Taxation and Research Committee has performed a major operation in the preparation of a memorandum for submission to the Royal Commission on Taxation of Profits and Income.

'The preparation of this document has proved to be a monumental task. I would not like to hazard a guess at the number of days the sub-committee has been at work on it. However, it is now finished and it has been submitted to the Royal Commission. . . .

'A summarized version of the memorandum was published in *The Accountant* recently[1] and the full memorandum will be available to members. I think you will find it well worth reading.'

Recommendation XII

The President went on to refer specifically to Head 21 of the Institute's memorandum, which deals with 'Rising price levels'. Varying opinions, he said, had been expressed regarding the treatment of accounts in relation to this problem, but he believed that the incidence of the heavy burden of taxation was the primary reason for the desire for a change in the basis

[1] Issues dated March 22nd and 29th.

of accountancy which many people were expressing. He continued:

'Apart from the taxation angle there is also the bearing which the problems of rising price levels present in relation to accounts. You will doubtless remember Recommendation XII, which was issued in January 1949 and which comes down on the side of the retention of the basis of historical cost. In view of the divergence of thought amongst business men and amongst accountants themselves, both professional and industrial, a sub-committee was appointed in May 1951 to consider whether any further statement or recommendation should be made on the subject dealt with in Recommendation XII, and it is expected that the report of that sub-committee, in the form approved by the Council, will be available shortly. . . .

The Finance Bill, 1952

'The Chancellor of the Exchequer has now opened his Budget and one of the next tasks of the Taxation and Research Committee will be to examine the Finance Bill, 1952, with a view to preparing a memorandum for the use of any deputation to the Board of Inland Revenue which the Council may deem it necessary to appoint. And judging from certain remarks made by the Chancellor in his Budget speech it would appear that this Finance Bill is likely to be lengthy and intricate. He referred to the fact that there are a number of minor reforms to be mentioned and that the Bill will in any case be very long this year. Apparently some defect in the law regarding sur-tax is to be corrected and what he described as a gap in our defences against avoidance of estate duty is to be closed. With a consideration of the incidence of the new excess profits levy and the so-called minor matters to be introduced into the Bill the members of our Committee seem to be in for a very busy time.'

After the President's address, the Brains Trust continued – the panel answering numerous questions. This second session concluded with the panel giving spontaneous answers to questions put to them by members in the body of the hall.

Mr E. Wells, F.C.A., of Preston, thanked the Brains Trust for their very instructive answers and Mr Guy Waterworth replied. Mr S. Thornton, A.C.A., of Preston, thanked Mr John Blane, F.C.A., the Conference Secretary, who suitably responded.

Members then adjourned to the lounge where they were joined by the ladies and friends at afternoon tea. Some members stayed on for a dinner dance in the evening.

THE SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

DINNER AND DANCE AT BRIGHTON

The South Eastern Society of Chartered Accountants held their fourth dinner and dance at *The Grand Hotel*, Brighton, on Friday, March 28th, 1952. Mr Arthur Jolly, J.P., F.C.A., President of the Society presided, and with Mrs Jolly, received the 117 members and guests and their ladies who attended.

Mr T. B. Robson, M.B.E., M.A., F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales, and Mrs Robson, were among the guests.

After the dinner, the toast of 'The Institute of Chartered Accountants in England and Wales and the accountancy profession' was proposed by Mr R. McNeil, F.C.A., who said:

'In this area, we accountants do realize all the work that is done by the Council, by its various committees, and by its officers, for the benefit of all of us individually as members, for the accountancy profession as a whole, and for commerce and industry on which the economic survival of this country depends.'

One Little Lady

Speaking of the training which the profession of accountancy demands, Mr McNeil said they all owed a great deal to the ladies who had influenced their careers (applause), and in particular to one little lady whose effigy could be seen on the badge of the Vice-President of the Institute.

At a time when most young men were passing through a gay and carefree phase of life, they were worshipping at the feet of that little effigy. The way to her heart was rather unusual – she demanded from them integrity, diligence and a constant searching after truth. For five long wearisome years they followed her, after which they emerged from the ordeal as accountants and were docile, tractable, truthful, faithful and industrious. (Laughter.)

Responding to the toast, Mr Robson spoke of the Institute's pride in its ever increasing number of members, especially when it was remembered that this expansion was in no small degree the accumulated result of appreciation by the public of the standards of integrity and character which had been displayed by successful entrants to the Institute, of whose achievements they might be justifiably proud.

Competition of Unqualified Services

The Vice-President wondered how many who required accountancy services in the area covered by the South Eastern Society realized that members of the Institute were not allowed to advertise, and how unfair was the competition they met as regards unqualified services – he urged that the distinguished guests who were present should help to carry out a crusade on behalf of the qualified man who was ready and able to serve the public and who should not be squeezed out.

Speaking of the Royal Commission, Mr Robson said that all the Royal Commissions in the world would not succeed in decreasing the overall pattern of taxes – this was a matter for people and the Government. People must be more critical of government expenditure and the Government must be wiser in its spending.

The toast of 'Our Guests' was proposed by Mr A. G. J. Horton-Stephens, F.C.A., Hon. Secretary of the Society, who described at length and most amusingly how an 'applicant' had been found to propose this toast. He pointed out that it was the first occasion in the life of the Society on which they had the honour of hearing the response made by a lady. Mrs Arthur Jolly, wife of the President of the Society, replied in a charming manner.

During the evening entertainment was provided by Captain Vernon Lee, M.C., and his daughter, after which dancing continued until 12 o'clock to the music of Percy Warden and his Orchestra.

COVENTRY CHARTERED ACCOUNTANTS
SECOND DINNER

The second dinner of the Coventry Area Branch of the Birmingham and District Society of Chartered Accountants was held at Chesford Grange, near Leamington Spa, on Thursday, March 27th, 1952.

The chairman of the Branch, Mr E. Thos. Peirson, F.C.A., presided, and with Mr H. Garton Ash, O.B.E., M.C., F.C.A., Immediate Past-President of The Institute of Chartered Accountants in England and Wales, received the 86 members and guests who attended.

Among the guests were Councillor Harry Weston, Mayor of Coventry, the Hon. E. Langton Iliffe, Colonel C. W. Clark, D.S.O., O.B.E., M.C., President of the Coventry Chamber of Commerce, Mr N. Edyvean-Walker, President, Warwickshire Law Society, and

Messrs W. L. Barrows, F.C.A. (*Member of the Council of the Institute*); A. T. Finch, F.A.C.C.A., F.I.ARB. (*President, Coventry and District Society of Certified Accountants*); D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); A. H. Hall, F.S.A.A. (*Coventry Representative, Committee, Incorporated Accountants' Birmingham and District Society*); J. A. Harrison (*Editor, 'Coventry Evening Telegraph'*).

Messrs L. Hayward (*Chairman, Coventry Area Branch, Birmingham Chartered Accountant Students' Society*); J. H. Plant, A.C.A. (*Vice-Chairman, Wolverhampton Branch, Birmingham and District Society of Chartered Accountants*); W. A. Tiley, O.B.E. (*H.M. Inspector of Taxes, Coventry 1st District*); E. C. Turner, T.D., M.COM., F.C.A. (*Hon. Secretary, Birmingham and District Society of Chartered Accountants*); A. W. Weeks, O.B.E. (*Director, Coventry and District Engineering Employers' Association*); J. S. Welch (*President, Institute of Bankers, Coventry and District Centre*).

The toast of 'The City of Coventry', was proposed by Mr Langton Iliffe and Councillor Weston responded.

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Colonel Clark, who said that industry could best solve the economic difficulties facing it by increased production. Nothing could bring that more readily than a cessation of the senseless railing at the profit motive, which created doubt and confusion in workers' minds.

Profits

Members of the Institute, he continued, could do much to stop misguided and irresponsible talk about profits. Already some firms in their annual statements had shown an analysis of each 20s of turnover – a method which showed to the simplest mind how small a proportion was the profit and how little it could possibly affect the price of goods and the earnings of the workers.

In conclusion Colonel Clark said:

'Cannot the very clever members of your profession devise a simpler form of balance sheet and profit and loss account which will make the position as clear as daylight to those who contribute their labour but are puzzled and suspicious over the results as usually expressed?'

Something Fresh to Say

In his reply to the toast, Mr Garton Ash said:

'I have been glad to have had the opportunity during my year as Immediate Past-President of attending the dinners of some of the branches and students' societies that I could not attend as President, in spite of the fact that this has extended the task of finding something fresh to say on each of some thirty occasions in response to the same toast.

'One past-president remarked "It should be made possible to say, 'For my response to this toast see *The Accountant* of last week'!" ' (Laughter.)

Branches of District Societies

He continued:

'The continued increase in membership and the wide areas now covered make the movement to form branches of district societies an important feature in the development of the Institute. The district society itself cannot now hope to maintain that close touch with all the members in a widespread district which is so important for the progress of professional knowledge and understanding. This can only be done with the assistance of branch organizations.

'Again, a branch can help materially by bringing together the distant students who cannot take advantage of the meetings and lectures organized by the central society. This is of considerable importance for the welfare of the Institute, particularly now that every articled clerk is required to join a students' society.' . . . (Hear, hear.)

Necessary to Keep Active-minded

'In these days it is necessary to keep active-minded. Perhaps the very problems of the modern world and the variety of anxieties which daily impinge upon our lives act as a challenge to our inner spirit which still demands a path of personal discovery and freedom. . . .

'The multiplicity of government orders and directions which so beset businesses, more often than not hinder rather than help, and make one long for the time when industry was unhampered and able to take quick action to counteract adverse tendencies.'

D.O.R.C.

'It was Mr Millard Tucker', he continued, 'who said recently that when he died they would find "D.O.R.C." engraved on his heart – "depreciation on replacement costs". (Laughter.) I am not going to spoil tonight by raising that question which is causing so much controversy, not only between accountants themselves but also, it is interesting to note, between many industrialists. The Institute has dealt with this fully in the evidence submitted to the Royal Commission.

M.I.N.O.

'But you are all familiar with FIFO – first in, first out – and LIFO – last in, first out. Recently, when in East Africa, I was asked if I knew M.I.N.O. – which referred to a much-talked-of agricultural scheme out there; I understand it represents "millions in, nothing out". (Laughter.)

The work of the profession, he added, is varied

'. . . the activities in which our members are now engaged are so diverse and so widespread that I doubt if there is any class of business today in which some chartered accountant is not to be found actively engaged. To be a chartered accountant means a job of real hard work.' (Applause.)

The toast of 'Our Guests' was proposed by the President of the Branch, Mr E. Thos. Peirson, in a warm speech of welcome during which he paid a high tribute to Mr H. J. Redfern, F.C.A., Hon. Secretary of the Branch, for all the hard work and energy he had put in to make the dinner such a success. Mr Edyvean-Walker responded.

Mr Peirson concluded a successful evening by proposing a toast to Mr Garton Ash.

NOTES AND NOTICES

Personal

MESSRS THOSEBY, SON & CO, Chartered Accountants, of District Bank Chambers, Market Street, Bradford, announce that, as from March 31st, 1952, they have taken into partnership Mr ANTHONY VICTOR FLATHER, A.C.A., who has been associated with the firm for many years. The name of the firm remains unchanged.

MESSRS HERBERT GIMSON & SON, Chartered Accountants, of 46 Ladbroke Square, London, W11, and 11 St Bride Street, London, EC4, announce that as from Tuesday, April 15th, 1952, the address of their City office will be Charterhouse, London, EC1. Telephone: Clerkenwell 1704. Their office at 46 Ladbroke Square, will remain unchanged.

MESSRS GEORGE A. TOUCHE & CO, Chartered Accountants, of Suffolk House, Laurence Pountney Hill, London, EC4, announce with regret the death, on March 25th, of their senior partner, MR DONOVAN MEREDITH TOUCHE, F.C.A.

MESSRS CARPENTER BOX & CO, Chartered Accountants, of Liverpool Chambers, Worthing, announce that they have admitted into partnership their former managing clerk, Mr KENNETH MASHFORD, A.C.A., as from April 1st, 1952.

MESSRS PIKE, RUSSELL & CO, Chartered Accountants, of 7 Fitzroy Square, London, W1, announce that as from April 1st, 1952, Mr NEVILLE V. COLLINS, A.C.A., who has been associated with the firm for several years, has been taken into partnership.

MESSRS HARMOOD BANNER, LEWIS & MOUNSEY, Chartered Accountants, announce that they have admitted to partnership as from April 1st, 1952, Mr GEOFFREY HALTON IMISON, A.C.A., who has been a member of their staff from the date of his original articles.

MESSRS MCCANN BENTLEY & CO, Chartered Accountants, of Abbott House, 1 & 2 Hanover Street, London, W1, announce the retirement from the partnership of Mr JOHN MCCANN, T.D., M.A., F.C.A., as from March 31st, 1952. The practice will continue to be carried on by the remaining partners under the same style and at the same address.

MESSRS MCBROOM, TEED, HAYWOOD & CO, Certified Accountants, of 275 Ecclesall Road, Sheffield, announce that Mr E. G. TEED, F.A.C.C.A., retired from the partnership on March 31st, 1952. The practice is being continued under the style of MCBROOM, HAYWOOD & CO by the remaining two partners.

MESSRS BLACKBURNS, ROBSON, COATES & CO, Chartered Accountants, of London, Bradford, Leeds and Manchester, announce that they have admitted into partnership as from January 1st, 1952, Mr J. STUART CHALTON, F.C.A., and that the practice hitherto carried on by Mr CHALTON under the title of J. STUART CHALTON & CO, Chartered Accountants, of Leeds, has been amalgamated with their own. The combined practices will be carried on in the name of BLACKBURNS, ROBSON, COATES & CO.

MESSRS WALTON, WATTS & CO, Chartered Accountants, of Chancery Chambers, 55 Brown Street, Manchester, 2, announce that they have admitted Mr CYRIL YATES, A.C.A., A.S.A.A., to partnership with effect from April 1st, 1952. Mr YATES joined the staff in 1934 and served his articles with the firm.

MESSRS HARPER, KENT & WHEELER, Incorporated Accountants, of Bellstone, Shrewsbury, announce that they have taken into partnership as from April 1st, 1952, Mr DOUGLAS B. WHITTINGHAM, A.S.A.A., who has been a senior member of the staff for a number of years. The firm name will remain unchanged.

The partnership between Mr JAS. W. ELLIOTT, F.C.R.A., F.C.I.S., and Mr RONALD R. ELLIOTT, B.COM., F.C.A., at 47 Orsett Road, Grays, Essex, will be dissolved and from April 1st, 1952, the practice will be carried on by Mr RONALD R. ELLIOTT and Mr P. J. MORTLOCK, A.C.A., A.S.A.A., who has been associated with the firm for a number of years, in the name of ELLIOTT MORTLOCK & CO, Chartered Accountants. Mr JAS. W. ELLIOTT and Mr RONALD R. ELLIOTT will continue to practise at 2 Station Road, Ilford, Essex, in the name of JAS. W. ELLIOTT & CO.

MESSRS HOPE, AGAR & CO, Chartered Accountants, of Pinners Hall, Austin Friars, London, EC2, have much pleasure in announcing that as from April 1st, 1952, they have admitted to partnership Mr E. F. TUFFREY, A.C.A., and Mr W. H. LAND, M.B.E., A.C.A., who have been associated with the firm for many years.

MESSRS GRACE, DARBYSHIRE & TODD, Chartered Accountants, of 19 Whiteladies Road, Bristol, 8, announce that Mr WILFRID WINDSOR GRACE, A.C.A., retired from the partnership on March 31st, 1952. He will shortly be entering a Theological College with a view to taking Anglican Orders. As from April 1st, 1952, Mr DONALD JAMES IRONSIDE, A.C.A., a member of the staff for a number of years, has been taken into partnership. The style of the firm will remain unchanged.

MESSRS CLIFFORD TOWERS, TEMPLE & CO, Incorporated Accountants, of 5 & 6 Bucklersbury, London, EC4, announce that Mr BERNARD T. BARKER, A.S.A.A., who has been with the firm for a period of over nineteen years, having served his articles in the Northampton office and since qualifying acted as London Office Manager, is being admitted into partnership as and from April 1st, 1952. The style of the firm will remain unchanged.

MESSRS DOWN, SON & HARPER, Chartered Accountants, of 44 Bow Lane, London, EC4, announce that Mr DEREK H. A. DOWN, A.C.A., has been admitted into partnership as from April 1st, 1952. The name of the firm remains unchanged.

MESSRS MANN JUDD GORDON & CO, Chartered Accountants, of Glasgow and Newcastle, announce that Mr DOUGLAS A. WRIGHT, M.A., LL.B., C.A., has retired from the partnership as from April 1st, 1952, to become a full-time director of Messrs C. & A. STEWART LTD, Glasgow.

Professional Note

Mr C. G. Rye, A.S.A.A., secretary of the Bowater Paper Corporation Ltd, has been appointed a director of Bowater's Lloyd Pulp and Paper Mills Ltd, Bowater's Mersey Paper Mills Ltd, and Bowater's Thames Paper Mills Ltd.

Obituary

DONOVAN MEREDITH TOUCHE, F.C.A.

We have learned with regret of the death on March 25th, 1952, of Mr Donovan Meredith Touche, F.C.A., at the age of 60, after a short illness. Mr Touche was the senior partner in the firm of George A. Touche & Co, Chartered Accountants, of London, a partner in the Canadian firm of the same name and also for some years a partner in the American firm of Touche, Niven & Co. He was admitted an Associate of the Institute in 1915 and elected a Fellow in 1924.

The second son of the late Sir George Touche, BT., a Scottish chartered accountant who became one of the founders of the investment trust system in London, he followed in his father's footsteps, devoting himself increasingly to the study of investment and finance, and at the time of his death was a director of numerous companies engaged in these activities.

He took an active interest in the ancient institutions of the City of London and was a member of the Court of Assistants of the Goldsmiths' Company and Prime Warden for nearly two years.

The Institute of Chartered Accountants in England and Wales

The Secretary of the Institute informs us that in the list of applicants admitted to membership at the Council meeting held on March 5th, 1952, published in our issue of March 22nd, the address of Mr D. A. W. Bradley should have been 181 Greenvale Road, Eltham Park, London, SE9.

In Parliament

ONE-CHILD FAMILIES

Mr STOREY asked the Chancellor of the Exchequer the number of married couples with one child whose income does not exceed £350 a year.

Mr R. A. BUTLER: On the present level of incomes the number of married couples with one child in the income range £135–£350 is about 800,000.

Hansard, March 25th, 1952. Written Answers, Col. 29.

CENSUS OF DISTRIBUTION: RESULTS

Mr R. E. WINTERBOTTOM asked the President of the Board of Trade when he expects the detailed results of the Census of Distribution.

Mr H. STRAUSS: A volume giving detailed results for the retail trade is expected to be ready before the end of this year. Volumes dealing with results for the service and repair trades and for the wholesale trade will follow soon afterwards.

Hansard, March 25th, 1952. Written Answers, Col. 32.

ARMED FORCES: INCOME TAX

Mr CUTHBERT asked the Chancellor of the Exchequer if he is aware of the anomaly whereby members of Her Majesty's Armed Forces pay British income-tax whilst serving abroad, while civilians do not; and if he will relieve Service members from this burden.

Mr R. A. BUTLER: Remuneration paid out of public funds is in general liable to income-tax wherever the recipient is resident, and I am afraid I could not see my way to give special treatment to members of the Forces.

Hansard, March 25th, 1952. Written Answers, Col. 28.

Recent Publications

THE ACCOUNTANCY OF CHANGING PRICE LEVELS, by the Research and Technical Committee of the Institute of Cost and Works Accountants. 129 pp. 9½ × 6. 15s net. Gee & Co (Publishers) Ltd, London.

NATIONAL INCOME AND EXPENDITURE, by J. E. Meade, Professor of Commerce, London University, and Richard Stone, Director of the Department of Applied Economics, Cambridge University. 48 pp. 7½ × 5. 3s net. Bowes & Bowes, Cambridge.

The Accountant

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CONTENTS

THE FINANCE BILL – II

LAST week we reviewed the excess profits levy and the profits tax provisions of the Finance Bill. This week we review the main income-tax provisions.

Personal allowances

Clause 11 increases a number of the personal allowances, in accordance with the Budget statement. Earned income relief rises to the awkward figure of two-ninths, with a corresponding reduction to seven-ninths for wife's earned income relief. The maximum for the latter relief is raised to £120, likewise the personal allowance for a single person – a married man is to receive £210. Child allowance, and the income limit therefor, are raised to £85.

The clause also provides at great length for the new scheme of reduced rates; £100 at 3*s*, £150 at 5*s* 6*d*, and the next £200 at an entirely new rate of 7*s* 6*d*. Wife's earned income also qualifies, subject to the existing conditions, for these new reduced rates, so that it is possible for a childless couple to earn jointly as much as £1,400 or more without paying tax at the standard rate of 9*s* 6*d*. They can earn as much as £1,200 and still pay less tax than they would have paid on this figure in 1938–39.

The age and marginal age relief provisions remain the same, except for the increase from one-fifth to two-ninths, but the other changes will alter the amount of the marginal relief. For persons who do not qualify for age relief but whose total incomes do not exceed £250, the earned income relief is in effect to be extended to their unearned income. Here again there is to be marginal relief where the total income does not exceed £350. It consists in limiting the total net liability to the sum of the tax on an income of only £250 plus two-fifths of the amount by which the income exceeds that figure. These new provisions render the old exemption and marginal exemption provisions otiose and they are to be terminated.

Cessation of Case III, IV and V income

The 'cessation provisions' which at present apply to income assessable under Cases III, IV or V of Schedule D are unsatisfactory in that they merely apply by reference the provisions dealing with the permanent discontinuance of a trade and make no allowance for the fact that the taxpayer may have to pay tax for a year after the last payment of interest etc., simply because he continues to possess the 'source' of the income. Clause 15 of the Bill introduces a new and comprehensive code on this subject.

It provides specifically for assessment on the actual income of the year of assessment in which the source ceased to be possessed, and also provides for an increase (but not a reduction) of the

assessment for the preceding year to bring it up to the actual income of that year. However, if there was in fact no income in either of those two years, the taxpayer can claim, within the twelve months that follow, to treat the year in which income last arose from the source as being the year of cessation, with consequent cessation adjustments for that year and for the year which preceded it. He cannot make this claim more than seven years after the end of the year in which income last arose. On the other hand, however, even where he still possesses the source, if no income arises from it for six consecutive years he can claim, within the seventh year, to have the tax computed as though he ceased to possess the source immediately before the six years began and as though he acquired it again immediately after they ended. Neither claim can be made if income last arose from the source before 1951–52. The clause applies to income assessed on the remittance basis with the modification that income received takes the place of income arising.

No time limit for losses

Clause 23 abolishes the six-year time limit for the carry-forward of losses. It extends to Case VI losses, to losses where a business has been transferred to a company, and to the carry-forward of assessments made under what was formerly Rule 21 and is now Section 170 of the Income Tax Act, 1952. The change covers all losses which were available for relief in 1952–53 or would have been available if 1946–47 had been ignored in computing the old time limit. The same clause permits the carry-forward of management expenses unallowed, again without time limit.

Mines and oil wells

Clause 16 gives effect to the recommendation in paragraph 240 of the Millard Tucker report[1] that where a taxpayer carries on a trade in winning minerals, expenditure on exploration in search of additional sources should be a permissible deduction in arriving at his profit. Under the existing law such exploration at a different site qualifies neither as a deduction nor for allowance under Chapter III of Part 10 of the Income Tax Act, 1952. The change is confined to expenditure incurred after April 5th, 1952.

Clause 17, which stems from paragraph 244 of the Millard Tucker report, fills a lacuna in the allowance provisions mentioned above. Plant and machinery have been excluded from allowances for expenditure on exploration, probably on the ground that they would qualify for the ordinary plant allowances. Some such plant may not in fact so qualify, and to that extent clause 17 brings it within the provisions for special allowances under Chapter III, but subject to the provisions of the Fifth Schedule to the Bill.

The Millard Tucker Committee also recommended an allowance to companies operating in undeveloped countries in respect of capital contributions towards the provision of local public services (paragraph 241). Clause 19 now permits mining concerns operating oversea to write off such expenditure over ten years, if it is incurred after April 5th, 1952, and falls within the three categories set out in the clause.

The 'Usher' allowance

Clause 22 withdraws the anomalous advantage hitherto enjoyed by brewers and other concerns which let premises subject to a tie, an advantage which was established by the decision in *Ushers Wiltshire Brewery Ltd v. Bruce* ([1915] A.C. 433). Broadly speaking no deduction is to be granted to the lessor by reference to the fact that he receives a rent which is less than the annual value or less than the economic rent, but rents received are to be included in business receipts, with a set-off for rents paid and for the amount on which the lessor bears Schedule A tax.

Miscellaneous

Clause 20 makes a logical extension of the allowance in respect of the expenses of obtaining a patent to cases where expenses are incurred but the application for the patent is rejected or abandoned. Clause 26 gives the Crown preference for pay-as-you-earn deductions made within twelve months before a bankruptcy, a liquidation, or the appointment of a Receiver under a floating charge. It replaces Regulation 30 of the Income Tax (Employments) Regulations, 1950, which was rescinded as being *ultra vires*.

Clause 21 and the Sixth Schedule make detailed amendments to the capital allowances for machinery and for patents, in particular providing for balancing charges and allowances where machinery is disposed of on the occasion of the permanent discontinuance of the business.

[1] Cmd. 8189.

THE ROYAL COMMISSION

THE SOCIETY'S MEMORANDUM ON PART B

THE Society of Incorporated Accountants and Auditors have recently published their second memorandum to the Royal Commission on the Taxation of Profits and Income; it deals with the more detailed questions on which evidence has been invited, i.e. Part B.

The memorandum contains some interesting points, but is a little disappointing in certain respects. For one thing, it is too short to include much new material or to deal fully with the many issues raised; for another, there seems to have been a reluctance to carry some of the arguments to their logical conclusion. Thus, in the first six paragraphs, in answer to the question 'Are there any kinds of profit or income which are not charged but should be?' with which the memorandum opens, the present position with regard to compensation for loss of office is said to be 'anomalous both in theory and practice' – a general conclusion which not everyone would accept. The only solution suggested, however, is that where the compensation *is* assessable it should be spread over an appropriate period 'to be determined by the Appeal Commissioners in the light of the facts'. A discussion of the circumstances in which such sums should be assessed would have been valuable. The statement that in certain types of cases an employer 'usually prefers to pay a finite lump sum' is hardly satisfactory as a theoretical basis for deciding that the sum is 'properly immune' from taxation, especially since the payment is 'partly in recognition of good service'.

Benefits in kind

The memorandum points out that the taxation of benefits in kind is anomalous because taxability frequently depends on the way in which the contract of employment is framed, i.e. whether the benefit is expressed as a deduction from or addition to the remuneration. If it is true that the 'small additional yield of tax coupled with practical and administrative difficulties' would 'far outweigh' the advantages of consistency, the point was scarcely worth mentioning. But statements of this kind need more than mere assertion; a great number of employees of different types receives substantial benefits in kind and it is difficult to see why so little tax is involved. To mention one minor instance, the issue of lunch vouchers must have reached substantial proportions and may well represent £30 or £40 tax-free remuneration per annum to those who receive them.

The authors of the memorandum are, however, on strong ground when they criticize the taxing of the remuneration of non-resident directors of United Kingdom companies who are assessed merely because they are technically holders of public offices in this country (see *McMillan v. Guest* (24 T.C. 190)). Conversely, directors of foreign companies who perform services here for more than six months in a fiscal year should be taxed on the remuneration in respect of those services instead of in respect merely of remittances.

Suggestions that annuities should not be taxed in so far as they represent a return of capital, and that allowances should be given in respect of assets such as mines and leases which are used up in the course of carrying on the business are very familiar but will stand repeating until some change is made.

Capital gains

One of the longer and more important passages deals with the taxation of capital gains; in rejecting such a tax, some of the arguments against it are put in a fresh and convincing manner. In the first place, it is pointed out that dividends paid from a capital source already suffer tax in the sense that they attract the higher rate of profits tax, and, secondly, that there is plenty of scope under the existing law for taxing more so-called capital transactions, e.g. many Stock Exchange transactions, owing to the wide interpretation which has been placed on the term 'adventure in the nature of trade'. The reason, of course, why the Revenue does not usually attack such transactions is that they would be bound to give relief for losses; similarly, taxpayers are usually too optimistic about future prospects to claim relief in respect of money they lose in their deals.

The argument that capital gains should not be taxed because they represent, or may represent

a fall in the value of the £ is not wholly satisfactory. It is true, as is pointed out in paragraph 15, that a person who bought a residence in 1938 for £1,500 and sells it in 1952 for £5,000 with which he buys a similar house in another district, cannot be said to have made a profit. On the other hand, if he does not require to purchase another house, and especially if he is able to realize a surplus on two or three houses, the case is not so clear; at any rate, one can say he is infinitely better off than the person who invested his £1,500 in savings certificates at the outbreak of war with a view to purchasing a house on his return to civilian life.

Better arguments are to be found in paragraphs 17–19 – that it would encourage tax evasion; the inducement it would give to sell and then repurchase on a falling market (to obtain the benefit of a loss claim); and the artificial restriction it would place on selling in a time of rising prices.

Changes in the value of money

The report of the Committee on the Taxation of Trading Profits asserts that it is certainly not generally accepted by the majority of accountancy opinion that a proper system of computing profits must necessarily take into account changes in the value of money. In paragraphs 23–25 of the memorandum, the following comment is made:

'The Council of the Society of Incorporated Accountants and Auditors wishes it to be known that it is not in complete agreement with this assertion.

'Accounting practices as now applied to the periodic measurement of business income were conceived in a period of relative price-level stability. In the past decade persistent depreciation in the value of money has called into question with gathering momentum the validity of some of these practices and has reached a point which compels their re-examination. The finance required to preserve operating assets so as to maintain production is a cause of anxiety to all who are concerned with the management and efficiency of industrial enterprise. There exists a serious danger of real capital consumption which accounting practices tend to veil.

'The Council of the Society has therefore set up a representative committee to re-examine the theoretical view to which the Committee on the Taxation of Trading Profits refers, with the object of making recommendations possible of acceptance by both the business community and the accountancy profession.'

This pronouncement on the vexed subject of the fall in the value of money is perhaps the most important part of the memorandum. The immense difficulty of finding an alternative to the present system which is satisfactory in either theory or practice is shown by the cautious approach of the Council of the Society and by the fact that after so much thought has been expended on the subject in the last few years no suggestion has as yet received sufficient support to lead them to comment on it at the present stage. The report of this committee, whose task is not made easier by the possibility of severe deflation in the near future, will be awaited with interest.

Schedules A and B

The present system of assessments under Schedule A and Case VI and of maintenance claims, is very cumbersome, and the memorandum also refers to the illogicality of assessing an owner-occupier under Schedule A – one might as well tax him on the value of his goods. It is, however, admitted that abolition would cause a substantial loss of tax to the Revenue which would not be counterbalanced by the Society's main proposal under this head, namely, to tax rents on a Case I basis. To cover cases where no proper records of expenditure are kept, it is suggested that the taxpayer should have a 'once for all' option (which would apply to all properties under his ownership) to claim a statutory repairs deduction instead. Any loss, it is suggested, could be set off against other income or carried forward as in the case of other Case I assessments.

Other suggestions are the abolition of (*a*) the distinction between industrial and other business premises for the purposes of Part X of the Income Tax Act, 1952 (formerly Part I of the 1945 Act), and (*b*) the assessment to tax under Schedule B of amenity lands.

Outgoings and expenses

The Society are in general agreement with the Millard Tucker Committee with regard to deductions for outgoings and expenses; they would relax Rule 9 of Schedule E to equate the position of the employee to that of the trader under Schedule D; and they would abolish or amend the *Law Shipping* case principle.

So far as the replacement of buildings is concerned, it is pointed out that this expenditure

sometimes becomes necessary under present conditions because of the difficulty of carrying out repair work. The hope expressed in paragraph 40 that *Samuel Jones & Co v. C.I.R.* ([1951] T.R. 411; 30 A.T.C. 412) will modify the official attitude in respect of replacement costs will probably not be realized in view of the still more recent case of *Phillips v. Whieldon Sanitary Potteries Ltd* which showed that there has been no alteration to the principles of law which govern this topic.

Sur-tax, earned income and personal allowances

The Society recommend (*a*) the extension of earned income relief to sur-tax, to be accompanied by a lowering of the level at which it is first levied; (*b*) a smoother gradation of rates; and (*c*) averaging.

It is not clear why it is thought that the *only* logical method of avoiding the sur-tax penalty which is frequently incurred on marriage is to add the incomes together and divide then by two for tax purposes. This would mean giving a substantial fiscal bonus for marriage – which may be desirable, but is not particularly logical.

It is suggested that an allowance should be made to parents who bear the cost of educating their own children based either on the extent to which this relieves the State or on the actual fees paid, with a maximum of, say, £80 per annum.

Administrative and other matters

The only point raised with regard to double taxation is administrative, namely, the tardiness with which indirect rates are notified. There are, however, a number of highly unsatisfactory features of the present double taxation rules which require legislative attention, and some of these might well have been mentioned with advantage.

With regard to the General Commissioners, the Society suggests that (1) the property qualification should be removed; (2) an age limit of 70 or 75 should be enforced (for the clerks as well); (3) the possibility of County or Area Commissioners to deal with complex and other cases should be explored; and (4) decisions on matters of principle should be circulated with a view to getting greater uniformity. The last point is not so easy to achieve as appears at first sight.

It is suggested that the time limit for lodging claims for repayment should be not less than two years.

Lastly, it is suggested that each year the reform and modernization of the law on a specific tax topic should be undertaken, followed, eventually, by a further consolidation Act.

As will be seen, the Society's suggestions cover a large area and will no doubt be of considerable value to the Commission.

THE ASSOCIATION'S EVIDENCE

Two Further Memoranda

IN our issue of June 16th, 1951, we reviewed the memorandum which the Association of Certified and Corporate Accountants had submitted to the Royal Commission on the Taxation of Profits and Income and which dealt with the special problems concerning the treatment of companies. The Association has submitted two further memoranda, the third dealing with questions of residence and double taxation, and the second dealing with the remaining matters on which the Association desires to give evidence. These two additional memoranda are dated January 1952, and therefore the references to relevant income-tax provisions are necessarily to the old provisions prior to their re-enactment in the Income Tax Act, 1952, which received the Royal Assent on February 28th, 1952, and came into force a week ago.

The new memoranda are of particular interest because the Association has shown commendable enterprise in tackling problems arising from less well-known aspects of taxation which tend to be neglected in the ordinary way, notwithstanding that in many cases the anomalies that exist are even more glaring than in the more everyday aspects of tax law.

Reduced rates and allowances

To reduce the disincentive effect of P.A.Y.E., and to lighten the burden on lower-paid workers, the Association boldly advocates no less than five reduced rates, as follows:

First £50 of taxable income	3s od
Next £50	4s od
Next £50	5s od
Next £50	6s od
Next £50	7s 6d

In the event MR BUTLER has been even more kind.

The jump in effective rate when earnings pass the £2,000 mark is stressed. The suggested remedy is either to extend the earned income range to earnings of, say, £5,000, or to introduce a new (reduced) earned income relief for earnings over £2,000.

Husband and wife
The Association advocates full single personal allowance for every individual, whether single or married, with the consequent abolition of the higher personal allowance. The amount suggested is £100, for simplicity. Here again the recommendation has been overtaken by events, but the married couple is still penalized unless the wife has earnings. Joint assessment should be the exception rather than the rule, but there should be a joint return signed by both parties – a recommendation which might well cause difficulties in practice. The Association stops short at giving reduced rate relief on a wife's unearned income, in view of the fact that this would reduce the tax yield.

P.A.Y.E.
The Association points out that the question of whether a payment to an employee is a taxable emolument or not is frequently one of difficulty. If the employer deducts tax in every case of doubt he runs the risk of trouble with his employees. If he fails to deduct tax which he should have deducted, whether through ignorance or otherwise, he remains liable to the Revenue. The Association recommends that there should be machinery to enable the employer to obtain a binding official ruling as to whether he is to deduct tax from a particular payment. It also suggests that the employer should have a legal right to recover under-deductions from the employee and to join him as a third party when sued for undeducted P.A.Y.E. tax.

Deduction at source, other than P.A.Y.E.
The Association points out the anomalies which arise when arrears of interest are paid, some out of taxed income and some otherwise, and there have been changes in the standard rate. It suggests that tax be deducted always at the rate in force on the date of payment and that the recipient be allowed to claim relief where the rate has risen since the payment fell due. It also calls for a cheap and speedy way of settling disputes between payer and recipient as to deduction of tax.

Another anomaly is the rule that failure to deduct income-tax when making an annual payment usually means that the payer has no remedy against the payee. The Association considers that he should be entitled to bring proceedings to recover the tax he ought to have deducted. The Association points out another anomaly in this connexion, an anomaly which, in general, receives little attention. It concerns a tenant under a short lease which is due to expire on March 31st. Unless he pays the Schedule A tax for that year before he pays the rent for the December quarter, he will normally be unable to recover all the tax from the lessor. However, the Association's suggested remedy for this would involve a serious breach in the scheme of taxing rents at the source. It would take the form of requiring the Revenue to collect Schedule A tax direct 'from the legal owner or beneficial occupier of the property, as the case may be', and would in practice, we think, result in a considerable loss of revenue.

Administration
The Association deals in detail with the anomalies and anachronisms of the scheme of income-tax administration, in particular the curious distribution of functions among the various bodies of Commissioners. It would abolish the income-tax assessing functions of the Special Commissioners. This, however, would still leave these Commissioners to perform other administrative functions as full-time civil servants, such as assessing surtax, while retaining their impartial judicial functions as an appellate body – a dichotomy which was never justified and ought certainly to be terminated now. The Association's remedy for this is to provide that the two functions 'be separated in law and exercised by different individuals' and that appellants should have a means of knowing by whom assessments on them were made, so that the Special Commissioners hearing appeals 'should not be judges in their own cause'. We feel, however, that the purely assessing functions of the Special Commissioners are probably very largely delegated to subordinates. In our view the principal objection to the present

system is that since Special Commissioners are full-time civil servants, closely concerned in the day-to-day administration of the Inland Revenue, they are not a suitable body to decide disputes between that department and the taxpayer, whether they have had a hand in the making of the particular assessment or not. It would be as reasonable to put police superintendents on the magisterial bench.

Other recommendations of the Association under this head include the abolition of the Additional Commissioner, the abolition of the purely formal functions of the General Commissioners, the right to demand a stated case on an appeal for relief under Section 341 (formerly Section 34 of the 1918 Act), and the removal of anomalies caused by the overlapping of functions of the General and Special Commissioners.

Schedule A

The Association points out the anomalous position now occupied by premiums on leases as a result of the long delay in making a Schedule A valuation and the omission to include the premiums in excess rent computations. Whether the speedy revaluation for Schedule A purposes, which it recommends, is the best solution is, however, open to question. There is a good deal to be said for the abolition of this schedule altogether. Certainly the powers of distraint under Schedule A should, as the Association says, be no more extensive than under the other schedules.

Evasion and penalties

It is strange that few witnesses have pointed out the extraordinary confusion of the penalty provisions of the Income Tax Acts. This problem receives brief but penetrating treatment in the Association's memorandum, treatment which is strengthened by references to the strictures of the 1936 Codification Committee Report (Cmd. 5132) on the subject. The memorandum also has a word about that bugbear of the taxpayer – the Inspector who changes his mind, or his predecessor's mind, and raises additional assessments.

Residence and domicile

A plea is made for statutory definitions of 'residence' and 'domicile' since for income-tax purposes so much depends on those two definitions, both for individuals and for companies. The Association would also give proportionate personal allowances to all non-residents without regard to nationality and would abolish the preceding year basis for foreign income.

Relief for double taxation

No one would deny that the present provisions for relief from double taxation are extremely complicated. The Association makes some helpful suggestions for making it simpler and more equitable, suggestions which it is not possible to review summarily. It is to be hoped that they will be given the careful study they deserve.

THE CERTIFIED PUBLIC ACCOUNTANT IN AMERICA

by SAMUEL M. WOOLSEY, C.P.A.
Assistant Professor of Accounting University of Texas

IN this article I shall give a brief history of the accounting profession in the United States and I shall outline the requirements to be met before one may become a certified public accountant in Texas, the state where I live. Also I shall give some statistics concerning recent C.P.A. examinations.

History

Undoubtedly the early history of accounting practice in the United States and the high standards now maintained were greatly influenced by the British accountants who were in reality the first to practice in this country.

During the last half of the nineteenth century the practice of accountancy had become so widespread and so important that the need for regulation was keenly felt. Largely as a result of the efforts of Major Harney, president of the Institute of Accountants (organized in 1882), a Bill to regulate the practice of accounting was introduced in the Assembly of the State of New York. The Bill passed the Assembly on April 3rd, 1896, was passed by the State Senate on April 7th, and became law when it was approved by Governor Levi P. Morton of New York on April 17th, 1896.

Under the provisions of this newly-passed law, the Regents of the University of the State of New York made rules for the examination of

persons applying for a certificate to practice as a certified public accountant. The Regents appointed three accountants as examiners for this first examination. After the first year the examiners had to be C.P.A.s.

First Examination under New York Law

The first examination held under the New York law was conducted in New York City on December 15th and 16th, 1896, and the first certificates were issued to three successful candidates.

Soon other states passed their own C.P.A. laws (Pennsylvania was second with a law in 1899) and finally with the passage in 1921 of a C.P.A. law in New Mexico, all states, territories and the District of Columbia had enacted C.P.A. legislation.

These early state laws usually required the candidate to meet three requirements. First, he must have a satisfactory general education; second, he must have had from three to five years' experience as an accountant; and third, he must pass a rigid examination.

For a while each state having a C.P.A. law had its own board to make up examination questions and to grade them. Such a situation lead to criticism because of the lack of standardization, both as to the degree of difficulty of the questions and as to the manner of grading. For example, the C.P.A. board of one state passed only two per cent of its candidates while at the other extreme, another board passed all of its candidates.

American Institute of Accountants

In the meantime the Institute of Accountants, which later became known as the American Institute of Accountants, in an effort to make membership in its organization more meaningful, began to give entrance examinations to its prospective members. The first examinations were held in 1916.

In an effort to secure greater uniformity among the states, the Institute offered to let the various state C.P.A. boards give the Institute's examinations to certified public accountant candidates in their respective states. To make a long story short, in 1917, three states accepted the offer of the Institute; today, forty-seven of the forty-eight states, the District of Columbia and four territories use the uniform certified public accountant examination as prepared by the American Institute of Accountants.

Qualifications of the C.P.A. Candidate

The British accountant will most likely be interested, for comparison purposes, in knowing who is entitled to take the C.P.A. examination.

Although all the states, except one, use the uniform examination as prepared by the American Institute of Accountants, there is no great uniformity among the states as to what qualifications are necessary before one may take the examination and under what conditions he may be given a certificate. Each state has its own laws.

Requirements in the State of Texas

It may be interesting to know some of the requirements in the State of Texas.

The Public Accountancy Act of the State of Texas provides that the certificate of certified public accountant shall be given to any person:

(*a*) who is a citizen of the United States or who has duly declared his or her intention of becoming such citizen, and who is a resident of the State of Texas or has a place of business or is employed therein at the time of his application;

(*b*) who is over the age of twenty-one years;

(*c*) who is of good moral character;

(*d*) who meets the requirements of education and experience in one of the three following subdivisions: (1) who is a graduate of a junior college, senior college, or university recognized by the Board and has completed thirty or more semester hours[1] in the study of accounting, business law, economics and finance, of which at least twenty hours shall be in the study of accounting, and who has been engaged in practice as a public accountant, or been in the employ of a person engaged in the practice of public accountancy, or shall have been employed as an accountant or auditor in work of a non-routine accounting nature which continually requires independent thought and judgment on important accounting matters for one year preceding the date of application; or (2) who is a graduate of a school as in subdivision (1) but who has not completed the hours of study as specified therein, but who has at least three years of the experience mentioned above; or (3) who is a graduate of a high school with a four-year course or who has an equivalent education and who has four years of experience as mentioned in subdivision (1); and

(*e*) who shall have successfully passed written examinations in theory of accounts, in accounting practice, in auditing, in commercial law as affecting accounting, and in such other related subjects as the Board may deem advisable. (The Texas Board gives the examination prepared by the American Institute of Accountants and which covers the first four subjects mentioned above.) Each applicant shall be required

[1] When a student takes a course for the equivalent of three hours per week for eighteen weeks, he receives three semester hours of credit. The average student usually takes five such courses, of which not more than two or three are accounting.

to make a grade of at least 75 per cent on each subject. Applicants for the examination shall meet the requirements stated in (*a*), (*b*), (*c*), and (*d*) before such applicant shall be permitted to take the examination; except, a candidate who meets the educational requirements in subdivision (1) of (*d*) shall be immediately entitled to examination in subjects other than accounting practice, but shall be required to meet the one-year experience requirement of subdivision (1) before admission to the examination in accounting practice. Under certain conditions a lawyer is not required to take the examination in commercial law but is given credit for it.[1]

C.P.A. Examination Questions

The British accountant will be interested in the general nature of the uniform certified public accountant examination as prepared by the American Institute of Accountants.

Shown below is a skeleton outline of the examination given in November, 1951:

A. *Auditing*, November 8th, 9 a.m. to 12.30 p.m. Nine questions (varying in value from 5 per cent to 20 per cent each) covering audit procedures, ethics, fraud, internal control, unrecorded transactions, etc.

B. *Commercial law*, November 9th, 9 a.m. to 12.30 p.m. Group I – five questions of 10 per cent value each. Group II – six questions of 10 per cent value each with one option. Points covered included bankruptcy, contracts, definitions, partnerships, principal and agency, negotiable instruments, surety contracts, insurance, and trusteeship.

C. *Theory of accounts*, November 9th, 1.30 to 5 p.m. Ten questions of 12½ per cent value each with two options. Questions covered the following topics: accrual of income taxes, consistency, factory overheads, foot-notes, goodwill, inventory, receivables, reserves, surplus, and testamentary trust.

D. *Accounting practice*, Part I, November 7th, 1.30 to 6 p.m. Three problems of values of 15 per cent, 20 per cent and 15 per cent. Part II, November 8th, 1.30 to 6 p.m. Two required problems of 12½ per cent value each and a choice of one of two additional problems of value of 25 per cent each. The problems were of the following types: cost accounting, income-tax, institutional accounting, lease contracts, single-entry accounting, source and application of funds statement, stock rights.

Various Types of Problems

A survey has shown the numbers of the various types of problems given on the accounting practice part of C.P.A. examinations from January 1st, 1940 to July 1st, 1948. The news bulletin of the Massachusetts Society of Certified Public Accountants, Inc., October, 1948, showed the following table:

Subject	*Number of Problems*
Working papers and financial statements	22
Corporate accounts	11
Cash and receivables	5
Inventories	16
Cost accounting	26
Consignments	3
Instalment sales	2
Fixed assets	24
Investments	3
Liabilities	9
Funds and Reserves	8
Adjustment of books and statements ..	4
Comparative statements and analyses ..	6
Application of funds	4
Partnerships	7
Joint ventures	1
Insurance	3
Receivership accounting	6
Consolidated statements	10
Mergers and reorganizations	4
Probate accounting	6
Budgetary accounting	1
Municipal and Institutional accounting	20
Income taxes	7
Other	16
Total	224

Successful C.P.A. Candidates

A question likely to be raised in the reader's mind is 'How successful are candidates in passing these examinations?'

A survey of the results of the examination taken in Texas in May, 1951, is shown in the table below:

	Auditing	*Law*	*Theory*	*Practice*
Number Taking	530	474	570	497
Number Passing	117	159	120	122
Per cent Passing	22·08	33·54	21·05	24·55

Under the Texas law a person passing one or more parts gets credit for those parts and may retake an unlimited number of times the parts which he has failed.

The success percentages in Texas are somewhat typical of that for the rest of the nation. There is a total of approximately 30,000 C.P.A.s in the United States today with about 2,000 new ones being added each year.

Conclusion

In the United States, as in Britain, the accounting profession is constantly trying to improve itself, in order to better serve its public.

[1] The Texas Public Accountancy Act is not given in full nor is it exactly quoted.

MANAGEMENT-CONTROL ACCOUNTING—I

With Special Reference to the Brewing and Bottling Industry

by HARRY DUGDALE, A.A.C.C.A., A.C.W.A., A.M.I.I.A.

Review of the Industry

IN considering the application of management-control accounting to the brewing industry, it is desirable to make a preliminary review of the industry to reveal its salient points.

The industry comprises several hundred companies. In the main, these are medium-sized, each supplying the needs of radii extending thirty to fifty miles from the brewery. Conversely, a few large concerns operate virtually on a nation-wide scale. The average brewery company effects sales of its products in two distinct channels of trade:

(1) sales to 'tied' tenants and/or managers who occupy the licensed premises owned by the company; and

(2) sales to what is known colloquially as the 'free' trade, i.e. to customers who do not occupy the company's licensed premises and – by virtue of the absence of any 'tie' – can thus purchase beers from whom they please.

Trade Channels

Tied trade is the predominant channel of turnover, providing an assured sales outlet. Despite this fact, however, the production facilities of many breweries are such that an additional output over and above the tied trade is practicable. Hence, sales to the 'free' trade are effected, and help in the spreading of 'fixed' overheads over a larger production.

The products are normally draught and bottled beers. In addition, the average brewery company carries on a merchanting trade in wines and spirits. Again, certain breweries have an ancillary business in the production and bottling of soft drinks, with regard to which, many of the following remarks on management-control accounting apply with equal force.

A paramount factor in cost control in the industry is the curtailing of production loss, consequent upon the extremely high rates of excise duty payable on the beers brewed.

Production Cycles

The brewing process comprises the following: grinding malt, mashing malt, boiling the 'wort' (which, at this stage, is an unfermented liquor), and passing the boiled wort through cooling plant to the fermenting vessels where yeast is added and fermentation commences. This process continues for several hours, during which the yeast reproduces itself many times over. At the end of fermentation, the surface yeast is skimmed off, and passed through a yeast press to extract any beer contained in it. The product now remains in either the fermenting vessel or a settling vessel until approximately six days have elapsed from the commencement of the brew. The beer for sale in draught form is then 'racked', i.e. passed gravitationally through filling tubes into the casks.

Bottled beer, on the other hand, involves the additional processes of conditioning in enclosed tanks, filtering, mechanical filling, crowning and labelling of bottles, pasteurizing and bottle-washing.

Having thus considered in outline the set-up of the industry, and the normal production cycles therein, it is possible to describe the application of management-control accounting.

Formulation of Sales Budgets

An essential first step is the formulation of the beer sales budget. The quantum of this comprises the respective amounts to be assigned to planned profit, and to the costs to be expended in producing the goods to earn that planned profit. Additional sources of revenue to be borne in mind are:

(1) profit from sales of wines and spirits;

(2) rents receivable in respect of licensed and unlicensed properties;

(3) net operating profit of 'houses' worked on a management basis;

(4) investment income.

Budgeting Ancillary Profit

An ancillary budget may be prepared in respect of the merchanting of wines and spirits, showing: anticipated sales; estimated cost of sales; and operating expenses; leaving the expected balance of profit hereon as a contribution to the total overall planned profit. In the matter of rents receivable the proper treatment of these in profit-planning is, in my opinion, to regard the estate operation as a specific phase of the company's

business, the rentals constituting the income, and the expenditure on property maintenance the outgo.

A budgetary control plan should be employed in the financial operation of the estate department, for rents receivable can be closely assessed and property expenditure planned in relation thereto – such expenditure being kept either within the ambit of rental income (in which case the estate section of the business is self-supporting), or, where in excess of that income, requiring subsidization from profit earned by other phases of the business. Similarly, a policy should be framed as to the operating of managed licensed premises, to which a certain measure of budgetary control can be applied. It is feasible to estimate the potential profit capable of being earned by a given managed-house set-up.

When the foregoing sectional budgets have been prepared they may be scheduled, with the planned profit, in the following manner:

	£	£
Planned net profit (before taxation):		
Add Amount required (if any) to subsidize the estate section of the business		
Deduct Estimated profit contributions by:		
(*a*) Merchanting of wines and spirits (per specific budget)		
(*b*) Operating managed houses (per specific budget)		
(*c*) Investment income ..		
Planned profit from beer sales ..		£

Initial Profit Planning to Provide Quantum of Production Costs

The total sterling value of anticipated sales of beer, as shown by the beer sales budget, should be linked with its related planned profit, in order to provide a *preliminary picture* of the amount of the production, administration and marketing budgets (including the costs of materials and excise duty), thus:

	£
Budgeted sales of draught and bottled beer ..	
Less Profit planned to be earned by such sales	
Total allowable for product costs	£

This method provides an overall yard-stick of expenditure, inasmuch as the cost of the postulated production should not exceed the total allowable therefor. Hence, when all the individual expense budgets have been prepared, and predetermined standard costs computed for direct and indirect materials and excise duty, the anticipated production, evaluated at its standard materials and duty costs and augmented by the respective totals of the factory, administration and marketing budgets, should bear comparison with the total amount allowable for product costs.

The adoption of management-control accounting implies either that the earning of additional net profit is sought or that, by means of cost control, the profit-reducing factors of inefficient production (including heavy overheads), or of rising prices of basic materials, can be effectively mitigated. Both sales budgeting and profit planning, however, must be realistic, in order that *achievable costs* of production and marketing may be determined.

Geographical Breakdown of Sales Budget

Most brewing companies laying any claim to being soundly organized maintain adequate statistics of trade done. These statistics are arranged under product classifications, showing quantities sold and, in some instances, are also analysed geographically. Here, therefore, is the basic data for the preparation of the beer sales budget.

The finally approved sales budget will show the expected sales of products in the respective categories of 'tied' and 'free' trade. Supporting budgets may then be prepared on a geographical basis, especially in the case of the large company operating on a national scale. A further breakdown is desirable into anticipated monthly sales. By this scheme, current actual sales may be compared with the budgeted sales quantities, to provide information on which the management can act to implement the predetermined sales policy.

While it is normally accepted that sales budgeting is the responsibility of the sales-management, it is useful to obtain criticisms of the first draft of this budget from the production and accounting executives. Assessing potential sales to the 'free' trade market is a task demanding research, analysis, and the presence of an avowed policy if it is to be effective. Such forethought, however, epitomizes the whole attitude to be adopted in management-control accounting.

(*To be continued.*)

RISING PRICES DUE TO INFLATION

by SIR HAROLD HOWITT, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A.

I WILL assume we are all familiar with the issues involved, and I will assume it is common ground that neither the accountancy profession nor industry is of one mind on the subject. It is probably true to say that these differences of opinion exist not only between members of the accountancy bodies, but even among partners of the same firm – this certainly is so in my case.

In these circumstances it is very difficult for the council of any accountancy body to speak with one voice as purporting to represent the views of its members – indeed this is probably impossible, and all it can hope to do is to put forward the best advice it can give, and advice which it believes to represent the majority view. The normal way to test that majority view is to seek the advice of regional committees.

It would ill become me as a guest at a luncheon where presumably there is not time for much heckling to get too controversial. I may, however, perhaps be permitted to mention that the Council of my Institute tackled this problem as long ago as early 1948. The results of their deliberations were published in January 1949 in our Recommendation XII – a document much abused in some quarters and misunderstood in others. We were, I think, first in the field and at a time long before the present controversy had become so hot. It is known to some of you that we are reviewing that recommendation in the light of present circumstances but you would not expect me, nor indeed am I able, to forecast what will result.

The American View

I may, however, be allowed to say that it is remarkable how nearly in all essentials the careful and detailed report of the U.S.A. Study Group which last month issued its findings, comes to the conclusions we reached in Recommendation XII. The American recommendation is that the historic cost basis for annual accounts should, for the present, be retained; that supplementary information, also reported upon by the auditor, should where possible be given as to the effect on these accounts of changes in the value of money; and that intensive study of the whole matter should continue.

The report of the Study Group indicates the difference of opinion which exists also in the United States and is accompanied by a considerable volume of dissenting observations on particular points.

I presume it would be accepted that the present demand that annual accounts should be stated in a form to reflect the fall in the value of the monetary unit, has arisen primarily from two sources – taxation and wage rates. It may then be well to say a word on these two issues.

Taxation

It is helpful that the controversy I am discussing has come acutely to a head at a time when we are all busy submitting our evidence to the Royal Commission. It gives us an opportunity to emphasize the crushing burden of taxation, especially with the added influence of inflation, and that retained profits are insufficient for development, or in some cases even for existence. We must, however, be careful that we do not drift into the position that good accounting is that which the tax authorities accept. The reverse should be maintained as the rule, namely that the tax authorities are prepared to adopt accounts prepared on accepted accounting principles. We must not get the cart before the horse.

It would be a tragedy if stable accountancy were to be sacrificed because it was made the scape-goat for the real offender, the high rates of taxation; nor is there the slightest guarantee that, even if accounts were prepared on the basis now being advocated, the desired end would be achieved, for a simple answer might be to put the tax rates still higher to bridge the gap.

Further, it is unthinkable that depreciation of fixed assets at replacement cost levels would be allowed for taxation unless complicated machinery were introduced to ensure that the asset was, in fact, replaced before the owner by sale, liquidation or otherwise, got away with what would, in effect, be an untaxed benefit. If industry alone were to be insulated from the effects of inflation there would be sound arguments for the legislature to introduce some form of capital gains tax, and the concession would then have been bought very dearly.

Wage Rates

Undoubtedly the present high rate of published profits is an upsetting influence in wage disputes. But would the position be bettered if those profits were reduced to cater for the change in the value of money? At present the accounts can at least be presented as being prepared on an understood accounting basis and argument can be adduced as to the amount by which the recorded profit should be adjusted to allow for replacement commitments.

If they were prepared in the first instance on the replacement basis, their whole structure would be

[1] Extracts from an address on April 1st at a luncheon of members of The Incorporated Accountants' London and District Society. Mr J. A. Jackson, F.S.A.A., F.C.A., was in the chair, and among those present were Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, Mr C. P. Barrowcliff, F.S.A.A., President of The Society of Incorporated Accountants and Auditors, Mr A. S. MacIver, M.C., Secretary of the Institute, and Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A., Director and Secretary of the Association of Certified and Corporate Accountants.

suspect. It would be difficult to resist the argument that all members of the community were to be asked to suffer from rising prices except the equity owner, and indeed that in so far as he escaped, others were to bear his burden as well as their own. Would it be an effective answer to say that at all costs industry must be maintained?

So far I have stated only some of the broad issues to be considered before reaching a decision as to whether anything should be done. Let me now say a few words as to the alternatives which are available.

The Institutes' Recommendations

My Council, in its various recommendations, has suggested that depreciation should continue to be calculated on historic cost; that any excess thought by the board of directors, as a matter of prudence, to be desirable to be set aside to finance replacements at enhanced costs, should be separately charged to revenue and if charged before the profit for the year is struck, that profit should be appropriately described; that the excess in question should be carried to a capital reserve account; that the alternative of a renewals basis is available; that generally speaking fixed assets should not be written up on the balance sheet; and that stocks should be valued on any basis accepted as good accountancy practice for the trade in question, provided the basis is made clear and is consistently maintained. So far as stocks are concerned it was stated in Recommendation X that LIFO and the base stock methods are not much used in this country.

Now whatever may be said about these recommendations they are at any rate clear. They are broadly in line with the American proposals I have referred to though we have not, as the Americans have, gone so far as to suggest the compilation of a supplementary set of accounts dealing with changes in value of the monetary unit and reported upon by the auditor.

Other Proposals

I wish I could say that those who are not satisfied with such proposals were, as a body, equally clear as to what they want. Their proposals in regard to rising prices vary within the following limits:

(*a*) Some would deal with depreciation of fixed assets only and not with stock in trade – others would deal with both.

(*b*) Some would advocate writing up fixed assets on the balance sheet to a replacement cost basis – others would not.

(*c*) Some would arrive at the depreciation charge according to current replacement costs and some on the basis of indices of inflation (or other element of increase in cost) since the asset was bought. There are differing views as to how, if at all, the slack from previous years should be picked up and as to how one deals with the fact that assets are seldom replaced in their old form.

(*d*) Some would value stock on base stock and some on LIFO or index principles – and some maintain that these two are essentially the same. If any item of stock is bought, say for £10, in January and sold for £15, in December, when it could be replaced at £14, some would maintain that profit was only £1, though opinions differ as to what should happen to the other £4, including as it does not only factors of inflation but factors concerning efficiency of production and even of good or bad buying. If the £4 is taken to stock reserve the net stock valuation would soon become a red-ink figure, and yet if this is not done (i.e. if LIFO principles are used merely as a method of valuing the stock-in-trade and not as a means of relating each sale to its replacement cost), the basic argument for LIFO has been discarded.

(*e*) Some would apply these principles to the annual audited accounts, and some would use them only for supplementary statements.

This is a vast subject and perhaps not appropriate to an after-luncheon talk, but I felt it was topical enough to justify a few remarks, not, I hope, too provocative.

I have not attempted to deal with profits for prospectus purposes, though obviously the question of rising prices is of vital importance in that connexion. I wonder how far subscriptions would be forthcoming on the basis of a prospectus which made it clear that dividends would not be paid unless the physical capacity of the business had been fully maintained? Further, I wonder what would be the rights of shareholders – and particularly preference shareholders – who may have subscribed to an issue on the basis of profits stated on orthodox principles if that basis were altered as suggested?

A Subject for Further Consideration

I am not for a moment suggesting that the problem does not require further thought, or that the historical cost method has not serious limitations. I am not expressing a view as to what is likely to be the future trend of the value of the £ sterling, though I think that is a material matter. Something would obviously have to be done if our currency went the same way as certain European currencies have done, and even short of that there is a point beyond which replacement costs cannot in any event be met out of revenue, whatever we do with our accounts.

In the meanwhile, it is alarming to think of the differing profit or loss results which would be shown if advocates of rising price accounting were turned loose on the books of any given business before they had cleared their minds much more as to what exactly they want – and how they would get there. It would be disastrous to scrap historical cost accounting, interpreted as we have recommended, without first finding a better basis. It is easy to advocate a change and it may be popular to do so, but it is much more difficult to define it.

WEEKLY NOTES

The Language of Cost Accountancy

In 1937, the Council of The Institute of Cost and Works Accountants, as a result of research dating back to the inception of the Institute in 1919, issued *Costing Terminology* which sought to establish the nucleus of a common language for that branch of the profession. The growth of this vocabulary and changes in the meaning of words have, as was anticipated, made necessary a revised version which has just been produced under the title *Terminology of Cost Accountancy*.[1] It excludes terms contained in the previous publication which do not specifically relate to cost accounting. These have been replaced by many new terms which have been brought into being by the development in recent years of the techniques of standard costing and budgetary control. It is hoped that this booklet will be the first stage in the preparation of a wider terminology which will include the whole field of management accountancy.

The publication is specially recommended to students taking the examinations of The Institute of Cost and Works Accountants for, after June of this year, the Board of Examiners will use this terminology in setting questions and will expect answers to be expressed in the same language.

No More Initial Allowances

The fifth of this month was the last day on which expenditure could be incurred which would qualify for an initial allowance. The announcement last year that initial allowances were to be withdrawn followed hard upon the recommendations of the Millard Tucker Committee that the initial allowances should be extended, and provoked very severe criticism from the then Opposition which, however, now that it is in power, has apparently had second thoughts. Those who witnessed the great care and skill which the Tucker Committee devoted to this and other difficult questions, and who now see that one of its major recommendations has been rejected with such emphasis by both political parties, will perhaps wonder why Committees and Royal Commissions are appointed at all.

The Levy and the Chambers of Commerce

The President of the Association of British Chambers of Commerce has transmitted to the Chancellor of the Exchequer a very forthright report of the Association's Finance and Taxation Committee on the excess profits levy – a report which has been approved by the Executive Council of the Association. The report states that there is no economic case for the tax and that it is scarcely the right way to encourage production and the export drive. The tax makes no allowance for the fall in the value of money since the standard period – a company which merely maintains its real income will be deemed to have made excess profits measured by the increased money value of that income. Furthermore, the standard period was one of great difficulty for businesses both in achieving physical production and in raising capital. The report points out many anomalies in the detailed provisions of the Finance Bill and concludes 'in spite of the professed aim of simplicity the actual design of the tax is more complicated than the old excess profits tax was. To work it will waste man-hours of expert staff which cannot be spared.'

[1] Institute of Cost and Works Accountants. 2s 6d.

Excess Profits Levy and The Commons

In the House of Commons debate on the Second Reading of the Finance Bill last Monday, the proposed excess profits levy was called 'the tax without a friend'. It was defended by the Financial Secretary to the Treasury, Mr Boyd-Carpenter, and by the Chancellor of the Exchequer. However, an undertaking was given to reconsider on the Committee Stage the special position of companies operating in Far-Eastern territories which had suffered devastion.

The Chancellor also undertook to explore the possibility of providing a third alternative standard, based on the net capital employed by a business. This capital would be computed, broadly speaking, on the same basis as for the old excess profits tax, but there would be a reconsideration of the percentage to be applied.

Payments Deficit: Second Half of 1951

From figures published over last weekend of this country's balance of payments position in the second half of 1951, it is clear that during the period under consideration the traditional pattern of trade for the sterling area as a whole completely collapsed. Only the colonial territories maintained their position as important dollar earners and their record is more noteworthy as a sharp contrast to the rest than for the size of the actual surplus.

Some features of this country's performance are already grim history. Imports increased beyond all expectations owing to the rise in import prices, and exports, although they too were higher than in the first half of the year, were quite unable to contain the higher import bill. But on top of this there was a serious turn for the worse in the invisible account.

The sterling area relies on the members outside the United Kingdom to balance its international account. The colonial territories maintained a surplus but the Dominions were running serious deficits in the second half of the year. These deficits were accumulated both in dollar countries and with members of the European Payments Union. This country was in a similar position, but its surplus with the rest of the sterling area was, however, maintained.

From a situation like this it is clear that Britain has

only a partial control of the remedy. Two of the largest items in these depressing accounts are the size of this country's import bill and the drastic fall in the second half of last year in the earning power abroad of the rest of the sterling area. Beside these items the British export drive is a marginal affair. It is true that margins can be vital – and this one certainly is – but it cannot of itself maintain the solvency of the sterling area. It is possible to argue that the sterling area was particularly unfortunate last year in losing oil revenue and shipping revenue from Iran but in a healthy balance of payments position a matter such as this would be no more than a secondary irritant.

The analysis of last year's outcome emphasizes the enormous leeway which has to be made up if this year's target of a balanced international account for the sterling area is to be realized.

Banking Trends in March

Since the refurbishing of monetary controls which began last November, the month-to-month changes in the figures of the clearing banks have taken on an additional interest. The reason for this is, of course, that the changes recorded give some idea how far the new monetary policy is working, at least in so far as it affects the pattern of the banks' assets and liabilities.

The March statement of the clearing banks shows that 'true' deposits declined by a small amount on the month and by a fairly substantial amount on the year. Compared with the rate of fall in bank deposits in February, however, the drop is small. 'True' deposits fell less than £12 million in March to reach a figure of £5,685 million.

The slight changes in advances and in the banks' investments suggest that the tighter conditions are having an effect on banking policy. Thus in the four weeks under consideration (they ended on March 19th) advances increased by only £14 million compared with nearly £51 million at the same time last year. This modest increase may in fact be a very small change indeed if special factors such as increased calls on the banks for accommodation from the public utilities are taken into account. Whatever costs and prices may be doing, advances are clearly 'sticking'.

FINANCE AND COMMERCE

Institutional support for the gilt-edged market has provided the mainspring of a general rally in values. This has led to the impression that the five-year bear movement in the funds may now have ended and that stock markets as a whole may recover. There is some way to go yet, however, before there can be any definite consideration of such a position.

Nationalized Accounts

We reprint this week the accounts of The United Steel Companies Ltd, the first to be issued since the company became 'publicly owned' by the vesting of its securities in the Iron and Steel Corporation on February 14th, 1951. The accounts are for fifteen instead of twelve months in consonance with the Corporation's request that all publicly-owned companies should have a common accounting period ending on the Saturday nearest to September 30th.

A more fundamental change is in the method of valuing stocks. The company's practice for many years has been to carry a basic volume of raw material stock at 1934 prices. This practice has now been abandoned.

To conform with the Corporation's desire for uniformity, the whole of the stock has been valued at current cost and the amount provided in the past to reduce the basic stock to 1934 prices has been carried to a stock reserve shown under revenue reserves. The sum so transferred was £1,074,262.

It has also been the company's practice to exclude from the value of its stocks the cost of the industry levies applicable thereto on the ground that these were in effect an addition to selling price rather than a cost of production. To meet the Corporation's wishes, and also to conform to the general practice of the industry, the relevant cost of levies has been included in the value of the stocks in the present accounts. This change in the basis of valuation has had the effect of adding £285,048 to the profit for the fifteen months. This amount has also been transferred to stock reserve.

The continued advance in the cost of materials, it is pointed out, necessitates corresponding increases in the amount of working capital required to maintain stocks at an adequate level. Although the scarcity of raw materials forced some reduction in total stocks during the period, it is estimated that over the fifteen months, an increase of approximately £1 million in working capital would have been needed to maintain stocks at the volume at which they stood at the beginning of the period. The stock reserve has therefore been raised to £2 million to meet the additional cost which will be incurred at current prices when stocks return to their former level.

Refractories

Congratulations to those responsible for the 1951 report of The Steetley Co Ltd. Besides giving the 1951 figures – comparatively early – 'this report is intended to give shareholders, and those who depend on Steetley for their livelihood, a picture of what dolomite and refractories are, and of Steetley's activities in these fields'.

'Refractories' – for those who care to read on – 'is a name given to materials able to stand great heat without distortion of shape or loss of strength. They are an essential in furnaces etc. Important among these materials is magnesite, produced from dolomite

THE UNITED STEEL COMPANIES LIMITED AND ITS SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account for the Fifteen months ended September 29th, 1951

Year ended June 30th, 1950 £	£			£	£
5,107,852		**Balance of trading profit for the fifteen months ended** September 29th, 1951, including miscellaneous income and after deducting the remuneration and pensions of executive directors (Note 9)			7,251,242
—		**Non-recurring and extraneous profits**	£371,543		
—		*Less* amount transferred to stock reserve	285,048		86,495
308,645		**Income from trade investments,** including publicly owned companies (gross)			390,505
1,174		**Income from other investments** (gross)			621
5,417,671					7,728,863
		Deduct:			
		Remuneration of the directors of The United Steel Companies Limited			
	10,700	Directors' fees	£12,888		
	1,075	*Less* paid by associated companies	1,338		
	9,625			11,550	
		Audit fees (including expenses)			
	3,900	The United Steel Companies Limited	4,800		
	2,740	Subsidiary companies	3,381	8,181	
	27,704	**Interest on loans and on debenture stock** of a subsidiary company (gross)		32,805	
	1,175,484	**Provision for depreciation**		1,567,389	
	165,000	**Contribution to staff** and workmen's pension and life assurance schemes		180,000	
1,384,453					1,799,925
4,033,218					5,928,938
		Deduct:			
	582,000	**Profits tax** on the profit of the fifteen months to date (Note 10)		692,049	
	1,190,000	**Income-tax** on the profit of the fifteen months to date (Note 11)		2,026,607	
	906,000	**Taxation relief in respect of capital expenditure,** applied to provision for deferred taxation		903,000	
2,678,000					3,701,656
1,355,218		**Balance carried forward**			2,227,282

Year ended June 30th, 1950 £	£		£	£
1,355,218		**Balance brought forward**		2,227,282
		Deduct:		
	11,511	**Profits** attributable to outside shareholders of subsidiary companies	5,008	
	14,762	**Undistributed profits** of subsidiary companies	14,705	
26,273				19,713
1,328,945		**Balance available for appropriation** by The United Steel Companies Limited		2,207,569
250,000		**Provision for taxation** no longer required		—
1,578,945				2,207,569
		Deduct:		
—		**Transfer to stock reserve**	640,690	
1,000,000		**Transfer to general reserve**	882,000	
				1,522,690
578,945				684,879
		Deduct:		
		Dividends		
		Preference Stock at 4½ per cent per annum less tax for the period August 1st, 1950, to August 15th, 1951:		
		Paid March 15th, 1951	68,433	
		Paid August 15th, 1951	60,208	
126,150				128,641
452,795				556,238
		Ordinary Stock:		
	140,168	Interim dividend of 5·0192 per cent less tax paid March 28th, 1951	281,411	
	308,368	Final dividend of 4·9808 per cent less tax recommended	266,565	
448,536				547,976
4,259				8,262
615,807		**Balance at June 30th, 1950,** brought forward		620,066
£620,066		**Balance as per balance sheet**		£628,328

For notes see pages 14 and 15. [*Not reproduced.* – Editor.]

(ex-magnesian limestone) and sea-water. The final product is a refractory brick which must retain its essential properties almost up to melting point. There is a wealth of interesting reading matter in this company's publication which next year will be followed by a description of the mechanization of the processes and improvements in working conditions since the war.

Car Mart Assets

Mr A. J. Rayment, the chairman of Car Mart Ltd, who last year pointed out that 'the value of our freehold and leasehold premises greatly exceeded the figure shown in the balance sheet', this time gets closer to reality. Upon looking into the matter further, he says, you will be interested to know that I am advised by our valuers that the freehold and leasehold premises, which stand in our books at £263,005, have today a market value of approximately £800,000.

The valuation has not been incorporated in the accounts but is nevertheless information of considerable value. If the business were being sold, it is this new value which would form the basis for negotiations and while a shareholder will consider his investment to be in a going concern, his consideration of its value will take account of the value of the assets which lie behind it.

That, of course, does not necessarily mean that the market value of his investment will fundamentally reflect the value of the assets but there is no doubt that asset values do have a stabilizing effect on share prices. When prices are falling, for instance, one hears it said regarding this or that company that on asset values alone, the shares are worth so-and-so.

Money Market

Treasury bill applications on April 4th totalled £302,145,000, and maintaining the bid at £99 8*s* 2*d*, the market obtained only 58 per cent of requirements as compared with 81 per cent the previous week. Only £210 million of the £220 million bills offered were allotted. The average rate was £2 7*s* 3·96*d* per cent.

THE UNITED STEEL COMPANIES LIMITED

Balance Sheet as at September 29th, 1951

June 30th, 1950 £	£		£	£	£
		Capital			
		Authorized:			
	16,000,000	16,000,000 shares of £1 each		16,000,000	
		Issued and converted into stock:			
	5,097,000	£5,097,000 4½ per cent cumulative preference stock		5,097,000	
	10,194,000	£10,194,000 ordinary stock		10,194,000	
15,291,000					15,291,000
863,454		**Premium on shares** less expenses			863,454
		Revenue reserves			
	7,100,000	General (Note 1)		8,160,000	
	—	Stock (Note 2)		1,805,578	
	620,066	Profit and loss account		628,328	
7,720,066					10,593,906
23,874,520					26,748,360
2,101,000		**Provision for deferred taxation,** being relief in respect of capital expenditure			3,084,000
1,848,946		**Amount set aside for future assessments to income-tax** (Note 3)			1,473,657
2,580,795		**Provision for maintenance,** including relining of blast furnaces and rebuilding of steel furnaces (provided out of trading profits)			3,129,130
—		**Loan from the Iron and Steel Corporation of Great Britain**			500,000
		Current Liabilities			
		Creditors:			
		Publicly owned companies and their subsidiaries	£342,154		
		Other creditors, bills payable, and provisions	8,085,330		
	9,232,299			8,427,484	
	1,591,643	Profits tax and income-tax accrued		2,026,292	
	1,496,768	Bank overdraft		—	
		Dividends less tax:			
	63,075	On preference stock		—	
	308,368	On ordinary stock – final dividend recommended		266,565	
12,692,153					10,720,341
£43,097,414					£45,655,488

For notes see pages 14 and 15.
[*Not reproduced.* – Editor.]

W. BENTON JONES
G. STEEL } *Directors*

June 30th, 1950 £	£		£	£	£	£
		Freehold and leasehold land, steel works, blast furnaces, iron ore mines, quarries, coking and chemical works and properties, as valued at June 30th, 1937, with subsequent additions at cost ..			29,942,871	
	26,451,550					
	9,498,238	*Less* Provision for depreciation			10,524,953	
16,953,312						19,417,918
370,391		**Loose plant, tools and equipment,** as valued by the company's officials				342,777
17,323,703						19,760,695
		Shares in and amounts owing from subsidiary companies of The United Steel Companies Limited				
		Colliery companies (Note 5)				
	2,269,888	Shares at cost		£2,269,888		
	1,662,661	*Deduct* advances and current accounts (including dividends declared and since paid)		1,867,059		
	607,227			—	402,829	
		Other companies				
	844,041	Shares as valued at June 30th, 1937, at par value with subsequent additions at cost		842,839		
	7,983,957	*Add* advances and current accounts (including dividends declared and since paid)		8,874,896		
					9,717,735	
9,435,225						10,120,564
2,595,329		**Shares in** subsidiary companies of the Iron and Steel Corporation of Great Britain ..				2,591,679
		Trade investments in associated companies at or under cost				
	21,446	Quoted (Market value £163,922) ..		21,443		
	680,483	Unquoted (Note 6)		447,888		
701,929						469,331
1,014,066		**Assets** vested in the National Coal Board as at January 1st, 1947, at net book values less amounts received (Note 5)				589,735
31,070,252						33,532,004
		Current Assets				
		Stocks as valued by the company's officials:				
	668,360	Basic stock at 1934 prices		—		
	5,247,147	Other stock at or under cost		6,504,763		
	5,915,507					
		Debtors:				
		Publicly owned companies and their subsidiaries ..	£984,330			
		Other debtors, advances, and prepayments, less provisions	4,445,653			
	6,099,911			5,429,983		
	11,744	Cash at bankers and in hand		188,738		
12,027,162						12,123,484
£43,097,414						£45,655,488

THE UNITED STEEL COMPANIES LIMITED AND ITS SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at September 29th, 1951

June 30th, 1950 £	June 30th, 1950 £		£	£	£
		Issued capital of The United Steel Companies Ltd			
	5,097,000	£5,097,000 4½ per cent cumulative preference stock ..		5,097,000	
	10,194,000	£10,194,000 ordinary stock		10,194,000	
15,291,000					15,291,000
507,824		**Excess of the value of the net assets** appearing in the balance sheets of subsidiary companies over the value of the shares in and advances to those companies in the balance sheet of The United Steel Companies Ltd			490,225
863,454		**Premium on shares** less expenses			863,454
		Revenue reserves			
	7,100,000	General (Note 1)		8,160,000	
	—	Stock (Note 2)		2,000,000	
	132,770	Miscellaneous reserves and undistributed profits of subsidiary companies		251,124	
	620,066	Profit and loss account		628,328	
7,852,836					11,039,452
24,515,114					27,684,131
2,101,000		**Provision for deferred taxation,** being relief in respect of capital expenditure			3,084,000
1,888,126		**Amount set aside for future assessments to income-tax** (Note 3)			2,153,942
2,957,885		**Provision for maintenance,** including relining of blast furnaces and rebuilding of steel furnaces (provided out of trading profits)			3,689,544
133,016		**Interests of outside shareholders,** including reserves and undistributed profits			132,685
568,000		**Mortgages and secured loans**			—
99,570		**Debenture stock of a subsidiary company** held by the Iron and Steel Corporation of Great Britain ..			99,570
—		**Loan from the Iron and Steel Corporation of Great Britain**			500,000
		Current Liabilities			
	1,690,117	Bank overdrafts		85,158	
		Creditors			
		Publicly owned companies and their subsidiaries	£462,723		
		Other creditors, bills payable and provisions	9,957,835		
	10,940,236			10,420,558	
	1,696,379	Profits tax and income tax accrued ..		2,414,015	
	371,443	Dividend less tax		266,565	
14,698,175					13,186,296
£46,960,886					£50,530,168

For notes see pages 14 and 15.
[Not reproduced. – Editor.]

W. BENTON JONES } *Directors*
G. STEEL }

June 30th, 1950 £	June 30th, 1950 £		£	£	£
	35,496,984	**Freehold and leasehold land,** steel works, blast furnaces, iron ore mines, quarries, coking and chemical works and properties		39,993,229	
	12,203,550	*Less* Provision for depreciation		13,459,173	
23,293,434					26,534,056
		Note: These assets are valued on the basis stated in the parent company's balance sheet with the exception of certain assets of small subsidiary companies totalling £603,445 which are valued at cost less depreciation.			
524,628		**Loose plant, tools and equipment,** as valued by the companies' officials			480,296
23,818,062					27,014,352
2,595,329		**Shares in subsidiary companies** of the Iron and Steel Corporation of Great Britain			2,591,679
		Trade investments in associated companies at or under cost			
	21,447	Quoted (Market value £163,947)		21,444	
	699,783	Unquoted (Note 6)		463,438	
721,230					484,882
1,968,280		**Assets vested in the National Coal Board** as at January 1st, 1947, at net book values less amounts received (Note 5)			1,342,880
29,102,901					31,433,793
		Current assets			
		Stocks as valued by the companies' officials:			
	795,038	Basic stock at 1931 prices		—	
	8,170,400	Other stock at or under cost		10,104,103	
	8,965,438				
		Debtors:			
		Publicly owned companies and their subsidiaries	£1,507,680		
		Other debtors, advances, and prepayments, less provisions	6,900,725		
	8,557,679			8,408,405	
	41,854	Government securities at cost (Market value £19,651)		20,948	
	293,014	Cash at bankers and in hand		562,919	
17,857,985					19,096,375
£46,960,886					£50,530,168

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Institute's Memorandum

SIR, – I have read with great interest Head 21 of the Institute's memorandum (*The Accountant*, March 22nd and 29th) to the Royal Commission on the Taxation of Profits and Income and find paragraphs 329 and 330 relating to the valuation of stock-in-trade particularly disappointing.

I note that:

> 'The Council is not able to make any specific proposal for general relief in respect of profits retained to finance stock-in-trade at increasing price levels, as practical difficulties would arise in attempting to legislate generally for such relief.'

Paragraph 330 then goes on to state that 'the method of valuation should be that adopted by the business, provided it is applied consistently from period to period and is based on accepted accounting principles'.

These statements give no indication that 'last in, first out' methods of valuation do substantially overcome the practical difficulties mentioned in paragraph 329 and achieve the object of financing stock-in-trade at increasing price levels, provided the method is admissible for taxation purposes. I suggest that the Institute should be prepared to say whether it considers the 'last in, first out' method as applied in the United States, is in accordance with 'accepted accounting principles'.

The 'last in, first out' method has been accepted as a proper system of stock valuation in the U.S.A. for many years and is widely adopted. It has been admitted by the Internal Revenue for tax purposes since 1939. Much literature has been published on the theoretical and practical aspects of LIFO in the U.S.A. which does not seem to have been widely read in this country.

In view of the great importance of this question to the industrial and commercial community, I suggest that an announcement by the Council on the matter is required in supplement to the non-committal statement made in Section X of the 'Recommendations on Accounting Principles, issued by the Institute which comments on the subject of LIFO and the base stock method:

> 'There is, however, only limited application of either of these methods in this country.'

One reason why there has hitherto been limited application is, I suggest, because it is known that the Board of Inland Revenue would dispute such methods. For a number of years they have been trying to persuade the limited number of taxpayers still using the base stock method to abandon it.

In accordance with the judgment in *C.I.R. v. Cock, Russell & Co Ltd* (28 A.T.C. 393), any stock valuation which is made in accordance with 'sound principles of commercial accountancy' is admissible in computing profits for taxation purposes. Members of the Institute are in a position of peculiar responsibility in this respect, since as expert witnesses in any litigation their evidence on what is proper commercial accounting practice would carry great weight. The Recommendations of the Institute on stock valuation were actually quoted in evidence to the City Commissioners in the *Cock, Russell* case.

The difficulty is that, even if either of these methods is accepted as proper commercial practice, there would still be an inconsistency in the method of valuation between the stocks at the beginning and end of the year. Paragraph 330 of the Institute's Memorandum makes the constructive proposal that the Board of Referees should be empowered to approve applications for a change. Would the Institute also support the thesis that a change to a LIFO method is in accordance with proper commercial accounting practice?

I would draw the attention of your readers to the fact that the Federation of British Industries has advocated the permissive use of LIFO or base stock methods in its evidence to the Royal Commission on Taxation, and I think the profession should therefore make up its mind on this matter.

Yours faithfully,

Egham, Surrey. C. D. HELLYAR.

Excess Profits Levy

SIR, – It would be interesting to have readers' opinions on an apparent anomaly in the Finance Bill as regards the adjustments to be made for capital in respect of undistributed profits or an over-distribution of profits under clause 33 (3). The rules governing the calculations are contained in the Ninth Schedule, and I refer to paragraph 2 (*a*) which modifies the method of arriving at the profit figure to be used. In particular, it eliminates from the computation of profits for this purpose, any adjustment which may have been necessary under paragraph 8 of the Eighth Schedule, which paragraph apparently provides for the 'spreading' of unusually heavy deductions, the whole of which cannot reasonably and properly be attributed to the accounting period in which incurred.

Envisaging a case in which a company incurs a large expenditure on a renewals scheme in 1952 (the assets in question not being on wear and tear and the expenditure being, therefore, allowable in the ordinary way), the total cost is spread back over the period during which the depreciation occurred, resulting in a reduction of the standard profits and the 1952 profits of an equal proportion. As regards the capital calculation, however, the whole of the

expenditure is regarded as a reduction of profit and a withdrawal of capital in the post-January 1st, 1948, period referred to in clause 33 (3). The result is a loss of 10 per cent of one-half of this expenditure in each chargeable accounting period from 1953 onwards.

In actual fact, of course, such expenditure cannot be a withdrawal of capital and in so far as new assets replace old ones, there can be said to be an increase of capital. Most companies, in these circumstances, would have depreciated the old assets by the date the renewals were necessary and the use of reserves or capital moneys to defray the cost is tantamount to an introduction of capital.

Is it not wrong in principle to include paragraph 8 of the Eighth Schedule amongst the enactments excluded by clause 2 (*a*) of the Ninth Schedule?

Yours faithfully,
F. C. A.

Weaving Plant: Provision for Replacement

SIR, – A limited company, to which we act as accountants, are commission weavers of worsted cloth. Plant, consisting mainly of Dobcross looms and bought at varying dates since 1918, has been kept in very good repair and is in most respects as new. The plant is at present insured for a figure which is about three times the original cost of the plant. We understand that for the class of work undertaken obsolescence is negligible as there has been little change in design. Some of the looms are over fifty years old, but the directors of the company say that there is no prospect of any necessity to replace them.

In the company's accounts, depreciation has been calculated on original cost, and the net figure now stands at approximately 10 per cent of the present-day value. We are uncertain upon what basis the charge, if any, for depreciation should be calculated. We are of the opinion that no further reduction of the net value of the plant and machinery is necessary, but we are not certain whether any provision should be made for replacement of the machinery in view of the fact that most of the machinery has been replaced, part by part, as it has worn out.

The opinion of accountants with experience of similar manufacturers would be appreciated.

Yours faithfully,
PUZZLED.

Discounts Receivable

SIR, – I have read Mr D. A. J. Welch's letter published in your issue of March 15th. Should the following printed on invoices be taken seriously?

> 'The usual settlement discount has been deducted from our prices and this invoice is rendered net one month.'

It bristles with possibilities, and a few points have occurred to me.

If the statement is taken at face value and the price adjustment is quite accurate, then obviously what is lost by way of cash discount received may be gained in prime cost by way of a lower 'purchases' total. Profit may be affected because (by normal practice) closing stock may include an increment of the materials with the discount factor eliminated.

The use of the words 'usual settlement discount' suggests that there may be a trade practice involved whereby a percentage is taken in settlement without stipulation as to date of settlement. If this is so then I sympathize with the supplier who appears to be recognizing fundamentals. If, however, the 'usual settlement discount' is in fact an allowance for prompt payment within a stipulated time then many buyers (trading on overdraft as most do) will welcome the move as a means of taking extended credit without loss of perquisites.

Without knowledge of the ruling custom in the particular trade, one cannot be dogmatic, but if 'settlement discount' is a recognized practice the buyer cannot compare prices unless all are on the same footing. There are certain trades where settlement discount is not subject to payment at a particular time – the margin is granted as a sort of commission to a factoring agent who may pay his supplier many months before being reimbursed by the ultimate buyer.

Yours faithfully,
Crawley, Sussex. G. J. MACMILLAN.

Managing Director's Commission

SIR, – I should be glad to have the views of your readers on the following point:

A service agreement provides for a commission to the managing director of a company at 5 per cent on the first £10,000 of net profit and at 10 per cent on any net profit in excess of £10,000. The agreement states that for the purposes of calculating the amount of the commission, the net profits shall be the amount remaining after charging the commission. In the event of the net profits, before charging commission, amounting to £15,000, should the commission be: (*a*) 5 per cent on the first £10,000, plus 10 per cent on the excess over £10,000 after charging all commission, i.e.

$$\pounds 500+\frac{10}{110}(\pounds 15{,}000-\pounds 10{,}000-\pounds 500)$$
$$=\pounds 500+\frac{\pounds 4{,}500}{11}$$
$$=\pounds 909;$$

$$\text{or } (b)\ \frac{5}{105}\times\pounds 10{,}000+\frac{10}{110}\times\pounds 5{,}000$$
$$=\pounds 476+\pounds 455$$
$$=\pounds 931.$$

Which basis is correct – or are they both wrong?

Yours faithfully,
PUZZLED CALCULATOR.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, April 2nd, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, S. H. Gillett, M.C., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, J. S. Mackenzie, K. A. E. Moore, P. Morgan-Jones, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, E. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T. Wilde, with the Secretary and Assistant Secretaries.

His Late Majesty King George the Sixth

The Secretary reported the receipt of the following letter from the Secretary of State for Home Affairs:

Home Office,
Whitehall.
March 18th, 1952.

Sir,

I have had the honour to lay before The Queen the Loyal and Dutiful Address of The Institute of Chartered Accountants in England and Wales on the occasion of the lamented death of His Late Majesty King George the Sixth and have received The Queen's Commands to convey to you Her Majesty's grateful Thanks for the assurances of sympathy and devotion to which it gives expression.

I am,
Sir,
Your obedient Servant,
(Signed) DAVID MAXWELL FYFE.

Readmissions

One application for readmission to membership was acceded to and one application was not acceded to.

Exemptions from the Preliminary Examination

Two applications under bye-law 79 for exemption from the Preliminary examination were acceded to.

One application under bye-law 63 (*a*) for exemption from the Preliminary examination was acceded to.

Reductions in Period of Service under Articles

One application under bye-law 63 (*c*) for a reduction in the period of service under articles was acceded to.

Two applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Exemptions from the Intermediate Examination

Two applications under bye-law 85 (*b*) for exemption from the Intermediate examination were acceded to.

Final Examination

Three applications under bye-law 63 (*e*) for permission to sit an earlier Final examination were acceded to.

Appointments while Serving under Articles

Three applications under bye-law 57 from articled clerks for permission to accept appointments while serving under articles were acceded to.

Articled Clerk in Industrial Organization

One application under bye-law 58 (*c*) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Changes of Name

The Council decided that the following changes of name be made in the Institute records:

George Edward Woodhill Davies, A.C.A., to George Edward Albert Woodhill.

Donald Stewart Rowbotham, A.C.A., to Donald Stewart Rowland.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following eighteen associates who have commenced to practise:

Barrow, Robert William; 1951, A.C.A.; 27 Abbotts Crescent, Highams Park, London, E4.

Binsted, John Wadkin; 1951, A.C.A.; 59 King Edward Avenue, Worthing.

Bryan, Patricia Elizabeth; 1950, A.C.A.; (Bryan, Mannay & Co), 200 Boundary Road, London, E17.

Cope, Alan Howard; 1952, A.C.A.; 'Basmore,' Shiplake-on-Thames, Oxon.

Cox, Eric Dennis; 1951, A.C.A.; (Newport, Nelson & Co), 79 Bishopsgate, London, EC2.

Darby, Raymond Henry; 1951, A.C.A.; (Darby & Co), 40 Hadley Street, Langley, Birmingham.

Eke, Clifford James; 1938, A.C.A.; (Clive Gildon & Co), 84 Borough Road, Middlesbrough.

Finlay, Gerald; 1950, A.C.A.; (Fisher & Finlay), 14 Gloucester Place, London, W1.

Griffiths, Peter Dudley; 1951, A.C.A.; (*David R. Morgan & Co), 51–52 Broad Street, Newtown, North Wales.

Hadfield, Donald James; 1933, A.C.A.; (Hilditch & Young), Barclays Bank Building, Oldhall Street, Liverpool, 3.

Hale, Ronald Alfred; 1951, A.C.A.; 52 Tavistock Road, Sutton, Surrey.

Hay, David James; 1948, A.C.A.; (Newport, Nelson & Co), 79 Bishopsgate, London, EC2.

Morris, Sidney; 1948, A.C.A.; (Silver, Altman & Co), Napier House, 24–27 High Holborn, London, WC1.

Palmour, Walter Fitzmaurice; 1948, A.C.A.; (Titus Thorp & Ainsworth), 11 Winckley Street, Preston.

Pampel, Norman Nathan; 1951, A.C.A.; 70 Coombe House, Hilldrop Road, London, N7.

Shackleford, Geoffrey Charles Francis; 1952, A.C.A.; (Wilmot, Shackleford & Co), 73 Denmark Hill, Camberwell, London, SE5.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Walters, Frank; 1951, A.C.A.; 20 Pengwern Avenue, Deane, Bolton.
Winward, Kenneth Greenlees; 1947, A.C.A.; (*Hillier, Hopkins & Co), 79 Marlowes, Hemel Hempstead.

(2) That twenty associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one associate be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

(4) That three applicants be admitted as associates under clause 5 of the supplemental Charter (bye-law 31).

(5) That eight applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before April 22nd will appear in *The Accountant* of April 26th.

Election to the Council

Mr Robert Pearson Winter, M.C., T.D., F.C.A., Newcastle upon Tyne, was elected a member of the Council to fill the vacancy caused by the death of Mr Graham Adam, M.C., F.C.A., Newcastle upon Tyne.

Members in Overseas Countries

The Council decided to publish the following statement:

'The Council wishes it to be known that there is nothing in the Royal Charters and bye-laws which would prevent a member in an overseas country from adding the words "(England and Wales)" after the description "chartered accountant" or after the letters A.C.A. or F.C.A., if he so desires and local regulations permit.'

Annual Report and Accounts for 1951

The annual report of the Council and the accounts of the Institute for the year 1951 were approved for issue to members of the Institute.

Registration of Articles

The Secretary reported that sixty-nine articles of clerkship were registered during the month of March as compared with eighty-nine in the previous March.

Resignation

The Secretary reported the resignation of:
Mr Kenneth Lawrence Mackenzie Ibbotson, A.C.A., Newton Abbot.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Hugh Cyrus Aston, F.C.A., Birmingham.
,, Charles Bradburn, A.C.A., Liverpool.
,, Percy Brook, A.C.A., Sheffield.
,, Charles Arthur Tregelles Hill, F.C.A., Winnipeg.
,, Ernest William Langford, F.C.A., London.
,, John Roberts Lord, F.C.A., Bacup.
,, Reginald Stephen Middleton, A.C.A., Southport.
,, Arthur Percival Mitchell, A.C.A., Bacup.
,, Edward Reed, B.A., A.C.A., London.
,, Norman James Smyth, A.C.A., Croydon.
,, Donovan Meredith Touche, F.C.A., London.
,, Frank Wall, F.C.A., Liverpool.
,, Richmond George White, F.C.A., Abergavenny.

Mr G. P. Kapadia and Mr E. W. Savage

Mr G P. Kapadia, F.C.A. (India), President of The Institute of Chartered Accountants of India, and Mr E. W. Savage, F.C.A. (Aust.), a member of the Queensland State Council of The Institute of Chartered Accountants in Australia, who are on a visit to this country, were received by the Council at the conclusion of its formal business. The President extended to them a hearty welcome to which Mr Kapadia and Mr Savage suitably replied.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

ANNUAL MEETING

The annual meeting of The Institute of Chartered Accountants in England and Wales will be held at the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, on Wednesday, May 7th, 1952, at 2 p.m.

DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 *of the bye-laws appended to the supplemental Royal Charter of December* 21*st*, 1948, *at a hearing held on March* 5*th*, 1952.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a member of the Institute (Mr X.) had been guilty of an act discreditable to a public accountant within the meaning of clause 20 (3) of the Royal Charter of 1880 (replaced by clause 21 of the supplemental Royal Charter of 1948) in that he entered into an arrangement with a member of the Institute (Mr Y. now deceased) which resulted in a clerk who was articled to Mr Y. failing to serve throughout his term of service as an articled clerk to Mr Y. on his principal's business of public accountant. The committee found that the formal complaint had been proved and the committee ordered that the member be admonished, but in view of the special circumstances the committee decided to omit his name from the publication of the finding and decision.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Arthur Sweet, F.C.A., had been guilty of an act discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter, in that he procured or permitted the insertion in the *London Telephone Directory* issued in February 1951 of an entry of an advertising character relating to his firm, Arthur Sweet & Co. The committee found that the formal complaint against Arthur Sweet, F.C.A., had been proved and the committee ordered that Arthur Sweet, F.C.A., of 22 Half Moon Street, London, W1, be reprimanded.

Personal

MESSRS THOMSON MCLINTOCK & Co, Chartered Accountants, Glasgow, announce that Mr DAVID MAITLAND DUNCAN, C.A., who is a son of Mr JOHN DUNCAN, C.A., their senior partner, was admitted into partnership on April 1st, 1952.

MR C. W. H. JACKSON, F.C.A., of 30 Park Row, Nottingham, announces that, as from April 1st, 1952, he has admitted into partnership, Mr OLIVER GEOFFREY LOVETT, A.C.A., who was articled to him and who has been associated with him for the past twelve years. The practice will be carried on from the same address and the style of the firm will be C. W. H. JACKSON & Co.

MR LAURENCE MOORE, A.C.A., practising as LAURENCE MOORE & Co, Chartered Accountants, at 14 Pall Mall, London, SW1, announces that, as from April 8th, 1952, he has entered into partnership with Mr J. T. RUTHERFORD, A.C.A., who has been associated with the firm for some years. The name of the firm remains unchanged.

MESSRS BLACK, GEOGHEGAN & TILL, Chartered Accountants, of 67 Watling Street, London, EC4, and 10 Lefebvre Street, Guernsey, C.I., announce that Mr R. S. A. DONNITHORNE, M.A., A.C.A., who has been associated with the firm for some years was admitted into partnership on April 1st, 1952.

MR W. G. M. JACKSON, M.A., A.C.A., of 32 Buckingham Palace Road, London, SW1, announces that Mr J. G. DOWNARD, A.C.A., who has been associated with him for some years, has become a partner as from April 1st, 1952, the name of the firm being JACKSON, DOWNARD & Co.

MESSRS HARMAN & GOWEN, of Norwich, East Dereham, Fakenham and Holt, announce that Mr E. F. G. TURNER, A.S.A.A., and Mr D. H. BARNES, A.C.A., who have been members of their staff for some years, have been admitted as partners of the firm as from April 1st, 1952. The name of the firm will remain unchanged.

MR JOHN EDWARD SHAW, A.S.A.A., who served his articles with the late Mr J. P. DUXBURY and for the past sixteen years has practised under the style of JOHN E. SHAW, at Rawtenstall, Rossendale, Lancs, announces that as from April 5th, 1952, he is joining in partnership with Mr EDMUND BROWN, of Blackburn, practising as NATHANIEL DUXBURY, SON & Co. As from the same date Mr BROWN will become a partner in the Rawtenstall practice, the name of which will be changed to JOHN E. SHAW & Co. Mr BROWN will continue as the resident partner at Blackburn and Mr SHAW at Rawtenstall.

MESSRS COOPER-PARRY, HALL, DOUGHTY & Co, Chartered Accountants, of 102 Friar Gate, Derby, Burton-on-Trent, Ashbourne and Uttoxeter, announce that they have taken into partnership Mr HAYDN JEFFERY COTTERILL, A.C.A., and Mr RANDOLPH GOODWIN, A.C.A., as from April 1st, 1952. Both Mr COTTERILL and Mr GOODWIN have been members of the staff for a number of years and served their articles with the firm.

MESSRS E. WATTS & Co, Chartered Accountants, of 7 Victoria Street, SW1, announce that Miss N. DUNHAM, A.C.A., will be retiring from the firm on April 30th, 1952. The practice will be carried on by the remaining partner, Miss E. WATTS, F.C.A., under the same name as formerly.

MESSRS BOARD, HILL & WHITTOW, Chartered Accountants, of 62 Sidney Street, Cambridge, 10 High Street, Haverhill, and 28 Princes Street, Ipswich, announce that Mr G. RUMBLES, A.C.A., has been admitted into partnership as from MARCH 31st, 1952. The name of the firm remains unchanged.

MESSRS EDMONDS & Co, Chartered Accountants, of 11 Hyde Gardens, Eastbourne, announce that they have admitted into partnership Mr REGINALD JAMES NEPEAN FOWLER, A.C.A., who has been a senior member of their staff. The style of the firm will remain unchanged.

Professional Notes

Mr G. W. Osbourne, A.C.W.A., has been appointed a director of National Canning Co Ltd. He retains the secretaryships of Smedley's Ltd, the main operating subsidiary, and of Strathmore Fruit Ltd.

Mr F. G. Pickett, A.C.A., has been appointed secretary of National Canning Co Ltd.

Mr F. E. Cairns, C.A., has been appointed a director of Pressed Steel Co Ltd.

Mr H. O. Jones, A.A.C.C.A., A.R.A.N.Z., has been appointed cost accountant to Procea Products Ltd.

C. H. Chaston Ltd announce that Mr B. S. Woodman, A.C.A., A.C.W.A., has been appointed secretary of the company.

Mr Henry A. Benson, C.B.E., F.C.A., a partner in the firm of Cooper Brothers & Co, Chartered Accountants, has been appointed a non-official member of the new Royal Ordnance Factories Board, established by the Minister of Supply to advise him on matters of policy in relation to the Royal Ordnance factories. There are eight members of the board and the three non-official members serve in an honorary capacity.

In Parliament

TAX EVASION: PROSECUTIONS

Mr HOUGHTON asked the Chancellor of the Exchequer how many prosecutions for income-tax and sur-tax frauds have been made during the last five financial years.

Mr BOYD-CARPENTER: The figures for which the hon. Member asks are as follows:

Year	Number of Persons Prosecuted	Number of Persons Convicted
1946–47	11	10
1947–48	14	13
1948–49	17	17
1949–50	16	15
1950–51	33	32
	91	87

Hansard, April 2nd, 1952. Written Answers, Col. 137.

Extra-Statutory Concession

ESTATE DUTY: HOUSE OWNED AND OCCUPIED BY DECEASED

The Board of Inland Revenue has issued the following statement about the valuation of house property for estate duty purposes in cases where the extra-statutory concession[1] as to vacant possession is applicable, because it would seem that the scope of the concession is sometimes not clearly understood by executors and others.

Where the concession is applicable,

> '. . . any increase in the market value above the pre-war value is disregarded in so far as it could only be realized by a sale with vacant possession'.

This does not mean simply that the house is to be valued at its pre-war value. In particular, the concession does not operate to exclude vacant possession value on the pre-war level or appreciation in value which is not attributable to vacant possession, e.g., a rise in the value of property due to a change in the value of money generally since before the war.

Taxation Lecture

A lecture on the new excess profits levy will be given on Wednesday, April 23rd, by Mr Percy F. Hughes, A.S.A.A., F.C.I.S. The lecture will be held at the Kingsway Hall, Kingsway, WC2, at 6.15 p.m. Applications for admission cards to the lecture, with a remittance for 5*s* should be sent to Mr Ernest T. Green, F.C.C.S., Kingsway Hall, WC2. Holborn 8860.

[1] See *The Accountant*, dated January 20th, 1951, page 68, or pages 10 and 11 of booklet No. 50c issued by the Board of Inland Revenue.

Exeter Chartered Accountants

The fifth annual meeting of the Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants was held in Exeter on March 12th last. The report shows that the membership has increased to 83 (55 members in practice, 28 not in practice) and membership of the students' society 74. The autumnal conference of the Institute was held at Torquay last October, the first time an autumnal conference has been held in the territory of a branch society. Members of the Exeter and District Branch now enjoy mutual facilities with members of the Bristol and West of England Society of Chartered Accountants. Eight lectures were held during the year. Officers elected for the coming year are:

Chairman: Mr J. S. Phillips, F.C.A. (Torquay).
Vice-Chairman: Mr S. R. Perratt, F.C.A. (Taunton).
Secretary and Treasurer: Mr J. G. Simpkins, A.C.A., 62 High Street, Exeter.

Leeds, Bradford and District Students' Course

The first residential course to be arranged jointly by the Leeds, Bradford and District Society of Chartered Accountants and the Leeds and Bradford Students' Associations was held at Grantley Hall, near Ripon, from Monday, March 24th, until Wednesday, April 2nd.

Nearly a hundred students attended the course, which was divided into two parts, the first five days being for Intermediate students and the following six for Final students. After most of the lectures – seventeen were given during the ten days – members met in discussion groups and at a subsequent session, problems not resolved by the groups were referred to the lecturer.

At the conclusion of each part of the course, students were invited to comment on the arrangements during their stay and make suggestions for improvements in future courses.

Recent Publications

SIMON'S INCOME TAX, HANDBOOK ON THE INCOME TAX ACT, 1952, prepared by Butterworths' Legal Editorial Staff. x + 395 + 100 pp. 9½ × 6. 27*s* 6*d* net, by post 11*d* extra. Butterworth & Co (Publishers) Ltd, London.

TAX CASES reported under the direction of the Board of Inland Revenue, Vol. XXIX, Part IX (pages 419–466); Vol. XXXI, Part IX (pages 447–494); Vol. XXXI, Part X (pages 495–540); Vol. XXXII, Part I (pages 1–54); Vol. XXXII, Part II (pages 55–110). 1*s* net each. H.M.S.O., London.

A COMPREHENSIVE INDEX TO THE INCOME TAX ACT, 1952, with Tables of Comparative Sections, by A. C. Monahan, B.A. 1[illegible]0 pp. 9×6. 15*s* net. The Solicitors' Law Stationery Society Ltd, London.

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CONTENTS

THE FINANCE BILL – III

The second reading

THE debate on the second reading of the Finance Bill had this in common with the Budget debate that of all who spoke in it only the CHANCELLOR OF THE EXCHEQUER and the FINANCIAL SECRETARY TO THE TREASURY were in favour of the new excess profits levy. Nevertheless, the CHANCELLOR said he was determined to maintain it and that it was a good deal simpler than the old excess profits tax however alarming its provisions appeared, although they were 'far too complicated enough'.

The Inland Revenue staff and the levy

The FINANCIAL SECRETARY said it was important that the levy should be as simple to understand and collect as possible and should not involve a great inflation of Inland Revenue staff. It was the Government's intention to operate it without expanding that staff. This was confirmed by MR BUTLER. To those who have followed the history of the attempts to increase the tax inspectorate in order to enable it to deal with its arrears of work, and who have studied the complexities of the levy, this announcement can only cause astonishment. It is obvious that if the energies of the inspectorate are to be diverted to mastering these complexities and working the vast number of arithmetical computations required, the remaining work of that body is bound to suffer.

Probable concessions

The CHANCELLOR'S assertion that the levy was simpler than the old excess profits tax was further weakened by his expressed willingness to consider a third alternative standard based on a percentage of the net value of the assets employed in the business, valued broadly speaking on the same basis as for excess profits tax but deducting borrowed money. This would remove the only excuse for saying that the new levy is less complicated.

The Government spokesmen promised also to reconsider 1947 as a standard year in the case of companies who could show hardship, notably those operating in Far-Eastern territory which had suffered occupation and spoliation during the war and were perhaps engaged in reconstruction in 1947. For companies in general, 1947 was defended as a reasonable standard year.

Bonus issues and standard profits

In our necessarily brief summary of the levy provisions two weeks ago we said that for the purpose of computing standard profit the expression 'paid up share capital' did not extend to bonus issues. This was incorrect. What we had in mind were clauses 33 (2) and 34 (2) which provide in effect for an increase in standard profit

of a sum equal to 10 per cent (12 per cent for director-controlled companies) of any increase in paid up share capital. The increase is expressly confined to sums which the company receives in cash. The meaning of this is extended by clause 57 (3) which provides as follows:

> (3) Where valuable consideration is given otherwise than in the form of money by or to a body corporate, so much of any provision of this Act relating to the excess profits levy as refers to payments in cash made or received by a body corporate shall have effect as if that body corporate had instead paid in cash or, as the case may be, received in cash a sum equal to the value of that consideration.

This sub-clause deals with the case of a company acquiring assets in consideration of an issue of its shares or repaying some of its paid up capital by means of a distribution of its own assets in kind, and is not in our opinion apt to describe the application of undistributed profit in the paying up of bonus shares.

It has to be remembered that profits earned after January 1st, 1948, and undistributed, whether capitalized or not, will result in an increased standard, in that 10 per cent of undistributed profit, calculated on the arbitrary basis laid down in the Ninth Schedule, is to be added to the standard (clauses 33 (3) and 34 (2) (proviso)).

It is possible however for a bonus issue of shares, made before December 31st, 1949, to increase the standard profit. Under clause 33 (4) there is an option to replace the actual profit of any one or two of the standard years by 8 per cent. (10 per cent for director-controlled companies) of the average paid up share capital in those years, and this would include bonus issues. The same sub-clause allows a further optional standard of 8 per cent (or 10 per cent) of the paid up share capital as at December 31st, 1949, which again would reflect any bonus issue made before that date.

Where new share capital is raised in cash or in kind during a chargeable accounting period the addition to the standard profit is not the full 10 per cent of that capital but only a fraction of it, a fraction represented by the proportion of the chargeable accounting period during which the new capital was in the company's hands. Similarly, where new capital is raised during the standard period, the addition to the standard profit is not the full 10 per cent but a proportion represented by the part of the standard period *prior* to the raising of the new capital. The reasoning behind this is based on the assumption that the profit in that part of the standard period which followed the raising of the new capital has already been inflated as a result of acquiring that new capital. Where capital has been repaid, the converse applies in every case.

Where a percentage of the paid up capital as at December 31st, 1949, is chosen as the standard (clause 33 (4) (*b*)), no adjustment is permitted in respect of new capital raised before that date, as of course such new capital is already fully reflected in this optional standard (clause 33 (4) (proviso)). However, where the other option is exercised, namely to substitute 8 per cent of the average paid up capital for profit in one or two of the standard years (clause 33 (4) (*a*)), there is no embargo on an adjustment for new capital introduced since January 1st, 1947, so that such new capital may enter twice over into the computation of the adjusted standard, at 10 per cent in respect of the period before it was raised, and at 8 per cent in the remainder of the standard period.

Minimum standard

In every case there is a minimum standard of £2,000, which was erroneously shown as £2,500 in our issue of April 5th last. Where the chargeable accounting period is less than one year, the £2,000 is proportionately reduced. The minimum standard does not apply however to a company formed after 1951 which is under common control with another company also subject to excess profits levy. However, where two or more companies are formed after 1951 and are under common control with each other the minimum standard may be apportioned between them.

These various optional standards may very well make for equity but they do not make for simplicity It seems probable that an additional optional standard will be granted based on the value of the assets employed and it is likely that the detailed provisions of the existing standards will be subjected to amendment on the committee stage of the Bill. In these circumstances, close study of the provisions may well be somewhat premature, except for the purpose of demonstrating the practical difficulties raised by them.

ROAD HAULIERS' COMPENSATION

THE Transport Act, 1947, continues to give rise to disputes between the Road Haulage Executive and the road hauliers whose businesses have been taken over, as to the amount of compensation to be paid. In view of the doubt and uncertainty which the provisions of the Act have given rise to, the announcement made last week by the PRIME MINISTER that road haulage is soon to be denationalized conjures up a depressing picture of the complications which the unscrambling of the eggs will cause when it is embodied in a statute.

Meanwhile new light has been thrown on the compensation provisions of the Transport Act by a decision of the Transport Arbitration Tribunal which was announced on the same day as the PRIME MINISTER's announcement (*Spiller's Transport Services v. The Road Haulage Executive*). The dispute concerned the computation of the cessation payment to be made under Section 47 (3) of the Act. This provision has already formed the subject of several leading articles in this journal concerning *Arthur J. Maggs Ltd v. Road Haulage Executive* (Road Haulage Cases No. 3 (E. and W.) 1950, page 15), *Road Haulage Executive v. W. C. and W. H. Yeoman* (No. 4, at page 33), and *Donnelly Brothers (Transport) Ltd v. Road Haulage Executive*.[1]

The profit and loss accounts produced showed debits for 'partners' salaries' which reduced the average profits for the three years to only £626 and the Road Haulage Executive originally argued that the cessation payment should be based on this smaller sum. The Tribunal accepted evidence that the arrangement as to payments to the partners was flexible, this being a family business with no formal partnership agreement. It was plain that the value of the services rendered by the individual partners was not the criterion, for one partner whose duties were nominal received an average payment of not less than £10 per week. It was apparently intended to dispose of the whole of the available surplus, and the carrying of undrawn profit to the capital accounts of the partners was an accountant's device to dispose of a surplus that the partners did not at the time know existed – similarly where a net loss was carried to capital account. The accountant had called the drawings 'salaries' in the accounts because that word would be more easily understood than 'drawings'. The Tribunal could not regard them as in any true sense remuneration.

There then remained the question whether any deduction from the firm's earnings should be made on account of management services in ascertaining the profit in the three basis years. This had already been considered in the *Yeoman* case, and though the Tribunal's decision in that case had been reversed by the Court of Appeal on the ground that the question could not be properly raised in that case, the Court of Appeal had been careful to express no concluded opinion on the questions decided. The Tribunal proposed to follow its own decision in the *Yeoman* case, and was fortified in this resolve by the recent decision of the Court of Session in the Scottish case of *The Road Haulage Executive v. Elrick* (referred to in our correspondence columns, March 22nd, 1952, at page 308). That was a case of a one-man business whose proprietor was in the habit of appropriating each year in his accounts a sum of £700 as his 'remuneration'. THE LORD PRESIDENT had said that this operation had nothing to do with ascertaining the profits of the undertaking but was concerned solely with the appropriation of such profits.

It seemed to the Tribunal that there could be no difference in principle between a one-man business and a partnership. There was no evidence of an agreement that some or one of the partners should receive remuneration irrespective of the profits earned and in the Tribunal's view the sums received in this case were an appropriation of profits.

The Tribunal adopted a multiplication factor of 2½. As the average profit, after adjusting for interest, was £4,104, the cessation payment was £10,260.

Another interesting decision of the Transport Arbitration Tribunal is in *Burton v. Road Haulage Executive* (Road Haulage Cases, No. 5 (E. and W.) 1951, page 47) where it was held that in determining the amount of cessation payment no account should be taken of the fact that the transferor had retained the custom of some of his old customers.

[1] *The Accountant*, issues dated December 2nd, 1950, June 2nd, 1951, and December 1st, 1951, respectively.

MANAGEMENT-CONTROL ACCOUNTING—II

With Special Reference to the Brewing and Bottling Industry

by HARRY DUGDALE, A.A.C.C.A., A.C.W.A., A.M.I.I.A.

Production Planning

THE brewing cycle of operations normally takes six days, with additional process time for bottled beers. Finished products stockholding must recognize this fact, the quantity held – augmented by beer in process capable of being completed at short notice – sufficing to cover the normal week's sales at a specified period of the year, i.e. having regard to seasonal variations which are experienced in the industry. This production cycle-time is, of course, a comparatively short one, giving no undue problems with regard to opening and closing stocks.

The planning of production is aided, however, by a breakdown of the annual production budget into a series of monthly quantities, thus revealing the expected seasonal variations in their production incidence. Some products may call for a maturing period after the completion of the production cycle. The maturation term, in conjunction with stockholding requirements, determines the production quantities. Effective production planning, in such circumstances, involves working backward from the date of maturity of the product.

A trend from draught to bottled beers which has been evidencing itself during recent years emphasizes the relative importance of a minimum holding of finished goods stocks. Excessive stocks of bottled beers will tie up additional capital in, *inter alia*, bottles and cases. Only effective production planning can therefore result in workable minimum holdings of finished products.

Materials Purchasing Budget

On the completion of the sales and production budgets, a materials purchasing budget may be formulated. This will call for data of the standard recipe for each type of beer; and as these data are essential for the computation of standard materials costs, the two requirements may be considered together.

Standard Recipes

The standard recipe data will be scheduled by the technical brewing staff who, in this operation, will bear in mind the factor of process loss. Thus the recipe quantities will allow for additional weights to compensate for the quantity of beer lost in processing. Where neither cost control nor production-loss control have previously functioned in the brewery, technical studies have to be made to establish what can be regarded as the 'normal' loss.

STANDARD RECIPE SCHEDULE. PRODUCT XXX BEER. GRAVITY 50°

	Standard quantities per 100 finished barrels	Standard purchase price	Total standard cost per 100 barrels	Standard cost per barrel	Revisions							
					Date revised				Date revised			
					Std. qty.	Std. purchase price	Total standard cost per 100 barrels	Standard cost per barrel	Std. qty.	Std. purchase price	Total standard cost per 100 barrels	Standard cost per barrel
		£	£	£		£	£	£		£	£	£
Malt												
Sugar												
Hops												
Sundry materials (detailed)												
Excise duty												
			£	£			£	£			£	£

(Note: The sterling figuring should be in decimal £s.)

Production Loss: Setting Standard

In the calculation of excise duty on the beer brewed, the quantity gauged by the Customs and Excise Officer is to be subjected to a deduction of 6 per cent 'in respect of such accidental loss and waste as arises in the brewing of beer' (*vide* Inland Revenue Act, 1880). This, from the cost accounting viewpoint, should be regarded as the maximum loss; and only practical experience will indicate whether 6 per cent, or a lesser percentage, should be 'built' into the standard recipe quantities. It would appear that efficient technical production will be indicated by the ability to be within the 6 per cent margin of loss recognized by the Customs and Excise.

The standard recipe can be usefully drawn up on the basis of a finished 'length' of 100 barrels, the recipe quantities being those requisite for the production of the pre-loss quantity of beer. If the recipe schedules are arranged as in the format on page 400, periodic revisions will be facilitated.

Standard Purchase Prices

Standard purchase prices should now be formulated and, preferably, revised annually. This is advocated not merely because it is in line with modern practice in standard costing: brewery companies normally enter into forward contracts with suppliers of such direct materials as malt and hops. The purchase prices are thus known. As the expected major portion of materials cost is represented by malt, hops and sugar, it is a debatable point whether standard purchase prices should be formulated for sundry direct materials, such as preservatives, whose relative cost-incidence per barrel is small.

Standard purchase price data should be listed, and the purchasing section advised accordingly. Purchase invoices can then be revalued at standard price, and the difference between standard and actual values allocated to price variation accounts opened for malt, sugar and hops. The cost of purchase price variances is then calculated each month on the quantities of such materials used in the month's production.

Formulation of Standard Costs for Excise Duty

It is essential, at this stage, to formulate the standard cost of excise duty for each product. Excise duty is the major factor in production cost. It is assessed on each brew by the Customs and Excise Officer, who attends at the brewery for this purpose, the gauging being performed while the wort (i.e. the unfermented product) is in a collecting or fermenting vessel. The excise duty is calculated in accordance with a defined scale based on the specific gravity of the beer, the minimum specific gravity for this purpose being 30°, at which strength the duty is £7 15*s* 4½*d* per barrel. Each additional degree of specific gravity costs 6*s* 7½*d* per barrel, being added to the basic duty cost per barrel already cited.

The calculation of a standard cost for excise duty necessitates the factor of production loss being brought into the equation. For example, bearing in mind that a 6 per cent deduction is allowed from the gauged quantity by the Customs and Excise Officer in respect of loss and waste, and assuming hypothetically that the loss actually sustained (after the fermentation stage) is 4 per cent, the standard cost of duty for a finished length of 100 barrels may be computed on the following lines:

Data

(1) Length brewed: 104 barrels (i.e. with an expected loss of 4 per cent).
(2) Length for excise duty: 104 barrels minus 6 per cent = 97·76 barrels.
(3) Actual finished length, after a 4 per cent loss: 100 barrels approximately.
(4) Actual cost of excise duty, as computed by the Customs and Excise Officer: 97·76 barrels × excise duty cost relative to the specific gravity of the beer.
(5) Standard cost of excise duty per barrel: $\frac{97{\cdot}76}{100}\times$ Duty cost relative to specific gravity.

Where the standard cost of excise duty has been formulated in the above manner, the monthly cost statement for bulk beer production will reveal the sterling incidence of variances, in the cost of excise duty, caused by production losses which diverge from the expected norm. The high rates of excise duty render the daily surveillance of production loss a factor of paramount importance.

Standard Costs for Labour

Still considering production costs for the beer in the bulk stage (i.e. before any of the bottling processes have taken place) attention may be directed to the production labour costs. Data should be prepared detailing the personnel required for the brewing process, their wage rates, and the annual wages cost, augmented by the company's share of national insurance.

Where the greatest economy in labour is sought, work studies will have to be made to formulate the labour hours required in each phase of the brewing production cycle. Similarly with regard to the labour employed in the racking department (i.e. labour engaged in filling casks), where, if

thought necessary, a standard racking time will be set for each size of cask.

Standard Manufacturing Costs for Bulk Beer

From this data, allied to the data of postulated production for the year, in the two categories overall quantity and racked quantity, standard labour costs per barrel may be computed. The production of bulk beer is a placid process more dependent on chemical reaction than on expendable labour hours. If, therefore, the precaution has been taken of ensuring by work-studies that only an economic labour force is employed, then a simple standard cost for direct labour, calculated in the foregoing manner, when compared with actual labour cost, reveals the monthly variance consequent upon varying tempos of activity.

During the racking process (or subsequently thereto in some breweries) two additional ingredients are introduced into the beer, viz.: priming sugar in solution, and finings to improve the keeping qualities of the product. Priming sugar solution is charged with excise duty. Standard costs will, therefore, require to be computed for priming, excise duty thereon, and finings.

Production overhead and its relevant budgeting will be considered in the next article of this series. It is mentioned here, however, to complete our consideration of product costs for bulk beer. These will be scheduled on the following lines to reveal the standard manufacturing cost per barrel.

The standard manufacturing cost of any bulk beers which are subsequently bottled represents the basis on which the monthly quantities transferred from brewery to bottlery must be evaluated. This transfer should be effected in the nominal ledger, crediting the brewing section, and debiting the bottling section, the relevant accounts being 'work in progress' accounts where integrated accountancy is employed.

From the aspect of bottling production cost, the standard manufacturing cost of the bulk beer represents the cost of the input to bottling processes. In order to reveal the monetary incidence of *bottling yield variances*, therefore, the input standard cost of the bulk beer must be factored by the percentage of anticipated loss to arrive at an *output standard cost.*

The data for calculation of bottling yield variance in this manner must be provided by an efficient system of reportage. Weekly production sheets, have been found useful in practice; and their format should enable data to be shown of bulk input quantities and of the subsequent bottled output in dozens.

Quantities used in bottling at input standard cost, versus bottled quantities at output standard cost, will elicit the amount of variance caused by departures from the normal loss in a specific month. There will be further discussion of this point in the next article, which is the last one in this series of three.

(*To be concluded.*)

STANDARD COSTS – BREWING

Item	Product A	Product B	Product C	Product D	Product E	Product F	Product G	Product H
	Standard cost per barrel £	Standard cost per barrel £	Standard cost per barrel £	Standard cost per barrel £	Standard cost per barrel £	Standard cost per barrel £	Standard cost per barrel £	Standard cost per barrel £
Materials per standard recipe								
Excise duty								
Production wages and salaries								
Racking wages*								
Cask washing wages*								
Cask repairing wages*								
Cask repairing materials*								
Brewery licence duties								
General works overhead: fixed charges								
General works overhead: variable charges								
Standard manufacturing cost	£	£	£	£	£	£	£	£

* Applicable to racked beers only.

THE INSPECTOR OF TAXES INTERROGATES

THE OWNER OF THE PEDIGREE HERD

by WILFRED TULLETT, F.S.A.A.

The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.

SCENE: *An Inspector of Taxes' office in a small country town. The office overlooks the old churchyard, beyond which is the fifteenth-century church tower renovated in a Festival of Britain effort. The Inspector is listening to the carillon chimes when the telephone rings.*

INSPECTOR: Yes?

CLERK: Mr Five-Barred to see you, sir. He says he telephoned for an appointment yesterday.

INSPECTOR: That is so. Bring Mr Five-Barred along.

(*A few minutes later an intelligent, prosperous-looking farmer is shown into the room.*)

INSPECTOR: Good afternoon, Mr Five-Barred. Do take a seat. What a lovely day!

MR FIVE-BARRED: Thank you. Yes, it is. I've been out amongst the remainder of my herd all the morning. It is the herd position that I would like to discuss with you.

INSPECTOR: I shall be pleased to help, if I can.

MR FIVE-BARRED: Actually, it is information which I want.

INSPECTOR: Right. Go ahead.

MR FIVE-BARRED: As you know, I elected to be assessed on the 'herd' basis.

INSPECTOR: Yes. All that is quite in order. From the newspaper reports I see that you had a wonderful auction sale. It must have been a great satisfaction to you.

MR FIVE-BARRED: It was. The prices exceeded even my expectations, but I've had some misgivings since. That's why I called to see you. I *thought* that the profit on my herd was a capital profit and did not attract income-tax.

INSPECTOR: By and large that is true – unless you begin replacing with animals at lower cost.

MR FIVE-BARRED: Exactly. That is my trouble. You probably saw that I sold nearly all my herd. It included the bull 'Nobility', which was sold for £3,000.

INSPECTOR (*interestedly*): Yes, I did see that.

MR FIVE-BARRED: 'Nobility' was the only bull I had. I find now that I can replace the animal for £500. A farmer friend advises me against doing so. *He* says that the difference of £2,500 will attract tax. Surely that can't be right! It would be outrageous.

INSPECTOR: Unfortunately for you, that *is* the position.

MR FIVE-BARRED: So my friend advises me not to purchase a whole bull, but to buy a half-share in one. I thought that that was rather clever. After all, half a bull can't replace a whole bull. But I decided to have a word with you about it. Do I purchase a half-share or not?

INSPECTOR (*sympathetically*): I am sorry, but that will not help you. It will be taken as replacing 'Nobility', and throw you into both income-tax *and* sur-tax.

MR FIVE-BARRED (*defeated*): That's a bit grim. It makes the whole 'herd' basis seem farcical.

INSPECTOR: I'm afraid that I cannot discuss *that*.

MR FIVE-BARRED: You will appreciate that I must have a pedigree bull for use in the herd?

INSPECTOR: Of course.

MR FIVE-BARRED: Then what am I to do? (*then, in great excitement*), I've got it! Why didn't I think of that before?

INSPECTOR (*intrigued*): Perhaps you will enlighten me.

MR FIVE-BARRED (*laughing*): Why, I will not replace the bull at all. I've lots of farmer friends with pedigree bulls. I will pay service fees: that's what I'll do. What about *that*, Inspector?

INSPECTOR: Well, I had not thought about that. It does seem the answer to your problem.

MR FIVE-BARRED (*delightedly*): And that is not all. At least half a dozen of my farmer friends can do the same. Gracious! Won't they be pleased to see me at the farmers' club when next we meet! I'll put thousands of pounds into their pockets. I can't see any chink in the argument, can you, Inspector?

INSPECTOR: As a matter of fact – no.

MR FIVE-BARRED: So that's my main difficulty settled. I can't stay any longer now, but this interview has put another thought into my head.

INSPECTOR (*anxious now to close the interview*): Yes?

MR FIVE-BARRED: I am wondering if there is any method whereby the large profits which I made on the sale of my pedigree *cows* can escape

tax, even when I *do* make replacements at much lower cost.

INSPECTOR (*firmly*): That is going to be much more difficult.

MR FIVE-BARRED: Perhaps you are right. We shall have to have a discussion at the club. One of our members, Mr Always-Glumm, has a scheme of forming a kind of co-operative society amongst ourselves, selling our animals cheaply to the society. Then the society would sell at enhanced profits, and pay the dividends to us as shareholders. Co-operative dividends do not attract tax, do they, Inspector?

INSPECTOR (*decisively*): I think we had better discuss this matter another day. I am afraid my time will not allow . . .

MR FIVE-BARRED: Yes, yes. I'm sorry, Inspector. I have taken a lot of your time. I will ring and fix another day. Thank you for all your help. Perhaps next time I call I can bring my friend Glumm with me. Good-bye.

INSPECTOR (*sinking into his chair*): Good-bye. (*Then, to himself, as the door closes*): Now let me think. It *looks* all right . . . but it does not seem right to be able to manipulate matters in a later year to escape profits made in a previous year. Yet I *cannot* see where he is wrong. Then (*dazedly, as another thought strikes him*), what is going to be the position if he hires 'Nobility' and brings the animal into the herd again? I'm going home . . . I shall have to sleep on this. (*As he passes down the street he sees a hoarding on which appears in large letters*):

COMING SALE OF
VALUABLE PEDIGREE HERD
MANY FOREIGN BUYERS EXPECTED
RECORD PRICES ANTICIPATED

INSPECTOR: Hmm mm!

THE COMPANY PROSPECTUS–IV

THE INSTITUTIONAL INVESTOR'S APPROACH

by Lewis G. Whyte, F.F.A.
Director and Investment Adviser of Equity and Law Life Assurance Society

This is the concluding lecture in the series which formed part of the winter lecture programme of the London and District Society of Chartered Accountants. The three previous lectures – from the viewpoints of (a) the Stock Exchange, (b) the lawyer and (c) the accountant – were reproduced in our issues of February 2nd and 9th, and March 15th respectively. The address reproduced below was delivered at a meeting on March 11th last, with Mr G. D. F. Dillon, B.A., F.C.A., President of the Society, in the chair.

WHEN your President asked me some time ago to wind up the series of talks on the company prospectus, he illustrated the task he wanted me to undertake in the following manner: he remarked that the three previous speakers were, each in their own special field, culinary experts in the preparation of a meal where the institutional investor would be one of the principal partakers. He implied, though he did not say so in quite these words, that his reason for selecting an institutional investor was because he was reputed to be experienced in the art of tasting and to have also an insatiable appetite.

The Institutional Investor

Before I go any further I think I should like to dispel any idea, which perhaps some of you might have, that the institutional investor is a well-defined type of individual with his thoughts and actions conforming to a distinct pattern. It is certainly true that as a rule he is concerned with large sums of money, that he acts in a fiduciary capacity, that his institution is usually a perpetuating one, and that he is a professional man spending all, or at any rate the greater part of his time, in the study of investment matters. But for all that, he is nevertheless a person or a group of persons with as much individuality and independence of judgment as any other kind of investor. I can think of no better way of bringing this point home than by telling you that there are numerous occasions on which the names of two different institutions appear as buyer and seller on the same transfer, each of which is no doubt firmly convinced of the correctness of its action. It is, therefore, quite improper for me to pretend that I could deal with this subject from the point of view of the institutional investor *qua* type. I can only tell you my own thoughts on the several problems involved. Since, however, I have been concerned with the problems of institutional investment during all my business life, I hope I will not be guilty of preaching any dangerous heresies.

Four Main Types of Investment

The structure of a company prospectus is fairly uniform and must, of course, conform to legal requirements. I do not propose to proceed by way of discussing separately each part of the anatomy of the prospectus. I think it is better to do so according to the different forms of investment. I propose, therefore,

to discuss new issues of capital under four main headings: debt securities, preference stocks and shares; ordinary stocks and shares; and lastly the securities of small private companies where a market quotation is not appropriate.

General Investment Problems of an Institution

First of all I would like to make some very general points. The institutional investor is concerned not only with the consideration of new investments, but also with the supervision of all the investments in his company's portfolio. Where the funds are large and consist of several hundred separate investments, the task makes a big demand on one's time; it is, therefore, essential that time should not be wasted in examining unimportant details, however interesting these may be. For this reason it may well be that a decision as to whether or not to subscribe to a new issue can be taken on a hasty reading of a few salient points. On the other hand, there are occasions when a prospectus may have to be read word for word, and in addition supplementary information may have to be obtained from such other documents as the memorandum and articles of association, trust deed, annual reports and balance sheets, and the chairman's speeches.

I shall try as far as possible to avoid platitudes, but there are one or two which I may want to make, chiefly for the purpose of emphasis. One of these is that the starting point of the study of a company prospectus, and indeed of any investment under consideration, is to decide what are the right questions to ask. Some will be found to be capable of a factual answer; others can only be a matter of opinion. Another is the importance of the price of the security; one should never lose sight of this. It is no use becoming ecstatic over the excellence of a security and the manner in which the prospectus is drawn up, if the price is too high, and price should be considered not only intrinsically but relatively. It is not sufficient just to be satisfied that the price is a reasonable one, without also asking oneself whether similar investments cannot be obtained more cheaply elsewhere. Moreover the price of a security is a function not only of its intrinsic or relative worth, but also of the degree of its marketability. Securities which have a free market usually enjoy a better status and a lower yield than those with a restricted market.

DEBT SECURITIES

I come now to the first group, namely, the debt securities. This includes all forms of mortgages, debentures, loans, notes, and indeed any form of contractual debt. First of all, what are the chief distinctions between the different types of contract; what importance attaches to the name? Is, for example, a first mortgage debenture stock always a better security than an unsecured note? Personally, I am inclined to be suspicious of names. A first mortgage debenture stock may conjure up in the mind a façade of security and strength which may be very illusory; indeed a weak company can sometimes borrow only by creating the strongest form of security. On the other hand an unsecured note issue by a company of impregnable strength may be an excellent and very safe investment, notwithstanding the apparent weakness in the form of contract.

Terms of Contract

I think the general approach to the study of new issues of all forms of loan securities should be, first of all, to examine the precise terms of the contract, and then to form an opinion as to the chances of the contract being duly fulfilled.

Some of the chief facts which have to be ascertained in arriving at the precise terms include: the price of issue; date, if any, of repayment, including any options which the borrower may have to effect earlier repayment, and the price of repayment. If provision is made for redemption by means of a sinking fund the exact manner of operation should be examined carefully, and the principal points to watch are: whether it operates by drawings or by purchase in the market; whether it is cumulative or whether it operates by equal annual amounts; whether there are any provisions for accelerating the operation of the sinking fund; and whether stock purchased by such acceleration must be cancelled, or whether it is available for reissue. All these points are of real concern to the institutional investor, especially so if and when sinking fund redemptions amount to a substantial proportion of the debt outstanding.

After the provisions of issue and repayment have been examined it is then possible to calculate the yield, and for purposes of calculating the yield to redemption it may be necessary to estimate the most probable date or mean date of redemption. Having done this, attention can be turned to the examination of where the security ranks in order of priority with other forms of borrowing. In this context any authorized but unexercised borrowing powers will have to be considered, and whether these relate to *pari passu* borrowings, prior loans, subsidiary companies' borrowings, which in turn may or may not carry the guarantee of the parent company.

Sometimes a debenture or note issue carries at the option of the holder the right of conversion into the ordinary stock of the company. In such cases not only should the terms of conversion be examined but also the safeguards, if any, against the value of such conversion rights being watered down by subsequent new issues of ordinary capital, whether for cash or by capitalization of reserves.

The Unsecured Note

The examination of the precise terms of the contract proceeds along the same lines irrespective of the form of debt contract, but there is one point in connexion with the unsecured note which I would like to make. This form of borrowing has found favour in recent years among those companies which wish to avoid charging their assets and yet which find the raising of capital by preference share issue a very expensive

matter on account of high profits tax. The unsecured note has been accepted by the institutional investor only where the most stringent safeguards apply in regard to prior borrowing powers and powers to charge assets; these are accordingly matters which are usually subjected to the most searching scrutiny.

The Credit of the Borrower

Turning now to the question of the credit of the borrower, one will of course want to be satisfied first as regards personnel; this applies to the directorate and management, the trustees for the debenture-holders, and the company's professional advisers. Opinion will have to be formed regarding the soundness of the business, based upon current and historic facts. A lender is not much interested in any glittering prospects of greatly increased profits; he is concerned principally with the maintenance of a minimum standard of profitability and with the borrowing company pursuing a conservative financial policy.

On matters relating to the soundness and profitability of businesses, from the viewpoint of the debenture-holder, it is perhaps easier to illustrate these by reference to some special points of interest among particular types of business. Brewery companies, for example, have in many instances borrowed money by means of mortgage debenture issues. Usually the valuation of the properties in mortgage discloses a satisfactory surplus over the amount of the mortgage debenture stock, but what is most acceptable from the holder's point of view is that the properties should form a properly integrated and stable economic unit.

Earnings and Assets

In the case of most commercial and industrial businesses the chief point to watch is the earning power. If, however, the investor is relying upon the value of the assets to look after the ultimate security of the debt, then it is the value of the assets under the adverse conditions of a distressed sale that should be taken into consideration. The net cost of assets, or the replacement value, or the valuation for insurance purposes, or the valuation placed on them by a professional valuer, are only one aspect of the problem.

Generally speaking, factories and fixed plant of companies in an industry which is passing through difficult times are seldom easily saleable, except at very poor prices, since in such circumstances the most probable purchasers are likely also to be suffering from adversity. However, where pledged assets can be sold piecemeal such as, for example, in the case of residential house property, shops, etc., the probability of being able to sell satisfactorily is greater.

Debentures and loans secured chiefly by way of a floating charge on current assets which in the normal course of trade are self-liquidating, may sometimes prove to be a more satisfactory form of security than a fixed charge on large factories or plant which may only become white elephants in times of severe adversity. For these reasons I do not think one should pay too much attention to the assets cover for a debenture stock, when the assets are valued on a going concern basis. If the earnings are good, the assets will likewise have a satisfactory value; the focus should be on the earnings.

Property Companies' Debentures

In the case of those companies whose paramount business is the ownership of property, the raising of capital by way of mortgage debenture stock is popular from both borrower's and lender's point of view. There are a number of special points here which call for careful examination. Prospectuses which set out the cover for capital and interest do so frequently without pointed references to whether the properties are freehold or leasehold, although such information is given in the general particulars of the business. In the case of leasehold property it is axiomatic that any debenture stock charged upon it should be amortised before the term of the lease expires. When it comes to calculating the earnings cover, it is usual to strike the net earnings of the company after payment of all outgoings, including ground-rent, and then relate such earnings to the requirements for interest and sinking fund on the debenture stock. This may give a deceptive picture of the true cover available, unless the amount of the ground-rent is also taken into consideration.

An interest cover of, say, three times from freehold property may in fact denote a much greater degree of security than a cover several times more from leasehold property. The real test to apply, if it can be calculated, is what percentage reduction in gross rents would have to be suffered before the interest requirements became uncovered.

Apart from the level of earnings one would want also to inquire into such matters as the length of leases, the types of tenant, the concentration or diversification of the properties according to area and use.

In the case of a mortgage debenture secured upon property it is usually desirable to pay particular attention to the clauses relating to the sale of property in mortgage and to the provisions, if any, which are made for the substitution of other property subsequently acquired. If these clauses are too loosely drawn, the debenture stockholder might find in years to come that his debenture was secured on very different properties from those when he made his original investment. It is necessary also to consider how the property is, or may be, affected by such legislation as the Rent Control Acts and the Town and Country Planning Act.

Investment Trust Debentures

Investment trust companies frequently borrow money by way of debenture stock, but, because their assets comprise general investment portfolios subject to changes from time to time, it is not possible to

proceed by way of fixed charge. The debenture stocks are nearly always secured by way of floating charge. The earnings of these companies are by the nature of their business relatively stable, and the debenture stockholder need hardly ever have any anxiety about the fulfilment of the contractual terms of his security. This is one of the instances where a prospectus can usually be read in a minimum of time, provided of course that price and yield are satisfactory.

I think the only point of special interest which should perhaps be mentioned is in the case of an investment trust company where the controlling interest is privately held, or is concentrated in the hands of two or three large shareholders. Where this is the case, it is perhaps easier for a third party to acquire a controlling interest, and perhaps change the whole nature of the company's business without requiring the prior sanction of the debenture-holders.

Income Tax and Stamp Duty

Before leaving the subject of debentures and other forms of loan contracts, there are one or two points of general interest which I might mention. The incidence of stamp duty and income-tax is often of very great importance, especially in the case of short-dated securities.

The taxation basis of institutions varies according to the nature of their business. For instance, investment trust companies pay no tax on realized profits, life assurance companies as a rule are also exempt, except in the case of annuity funds, moreover taxation of life assurance interest income has been assessed for some years at a lower rate than the standard rate. Banks on the other hand are liable for tax on capital profits. The institutional investor will, therefore, make his yield calculations in accordance with the taxation basis of his company.

In the case of securities having less than, say, five years to run the imposition of a stamp duty of 2 per cent is responsible for throwing up very big differences in the yields to redemption as between buyer and seller. This has the effect of restricting the market and also of making it almost impossible for a holder to be able to sell his holding on a satisfactory yield basis when within a few years of final repayment. This does not apply in the case of sales to the sinking fund for purposes of redemption.

PREFERENCE STOCKS AND SHARES

I turn now to preference stocks and shares. This form of investment has passed through several phases of popularity and unpopularity, both from the viewpoint of the institutional investor and those seeking to raise capital. Preference stocks and shares began to find favour among insurance offices after the First World War when these institutions sought to extend their field of investment beyond the confines of government stocks, mortgages, and debentures. They grew in popularity until soon after the ending of the Second World War, when nationalization Acts were directly and indirectly responsible for some misfortunes, chiefly as a result of liquidations or reductions of capital. The comforting view that preference shares, including those which were quoted at substantial premiums could be considered as perpetual investments received a sharp jolt. Investors accordingly became much more conscious of the risks that might be involved. Another complication arose as a result of profits tax. This tax increased the cost of the preference dividend to the company and made the raising of preference capital an expensive matter from the equity holder's point of view. On the other hand, those investment institutions which were themselves subject to profits tax frequently found better value among preference shares than among debenture stocks.

In spite of these complications, preference shares where carefully chosen, and at reasonable prices, still form a useful medium of investment for the institutional investor. It is a form of investment where extra special care should be taken in its selection, and the price should be considered not only in relation to the general run of investment yield but also in relation to the yield obtainable on the company's own ordinary shares. I mention this point because quite frequently it may be found that the cover for the dividend on a company's ordinary share may be not so very much weaker than the cover for the dividend on its preference share, and yet the difference in the yields may be small and make insufficient allowance for the much greater potentialities of the ordinary share. In such instances while the preference share may appear intrinsically attractive it may compare unfavourably with the ordinary share.

Preferential Rights

Like debentures and other forms of loan stock, the general approach to the study of a prospectus of a preference share issue is to examine first the precise terms of the issue, and then to consider the likelihood that the preferential rights and privileges will always be met. The terms include the price of issue, rate of dividend, whether cumulative or non-cumulative, place of ranking for dividend and capital, capital rights in event of winding up or reduction of capital, the amount of the issue, the capital structure of the company, and the voting rights of the preference holder. The last is vital, since the preference shareholder, unlike the debenture-holder, has no right to sue for fulfilment of contract. He is a proprietor and as such the strength of his position depends upon his voting rights. Very special attention must, of course, be paid to the borrowing powers of the company and its subsidiaries. If the issue is a redeemable preference share, the means of redemption will have to be considered and examined.

Voting Rights

When full particulars of the terms of the preference issue have been ascertained it is usually wise to look further ahead and to consider what changes in the capital structure of the company might subsequently take place to the possible detriment of the preference

holder's interest, and without his having the power of prevention. I mention this because the business of most companies seldom stands still and the interests of the ordinary shareholders, who as a rule carry a majority of votes, are not necessarily in harmony with those of the preference holders.

By way of illustrating what might happen to prejudice the preference shareholders' position one could mention the following: an increase in borrowing powers; increase in capital, whether by way of issue for cash or by capitalization of reserves; reduction of capital; amalgamation, etc. In the case of all such proposals the preference shareholder can protect his interest should they appear to be adversely affected, provided that he has a satisfactory proportion of votes. The absolute minimum which can be considered safe is 25 per cent, but, because voting power is seldom used to the full, a much higher percentage is usually desirable. I would like to stress the great importance which I think the preference shareholder should attach to voting rights. If more attention had been paid in the past to this aspect, some of the disappointments suffered by preference shareholders in recent years would have been avoided.

Preference Dividend Cover

Coming now to the question of the soundness of a preference issue, here again it is largely a question of the opinion which can be formed of the business and the people running it. The most essential criterion is not big profits, but stability of profits. A preference holder is likely to feel more contented with a level of profits covering his dividend, say, three times with little variation than, say, ten times on the average but with violent fluctuations from year to year.

Many prospectuses give calculations of the capital and dividend cover of a preference share, and the preliminary assessment of the share frequently depends on the extent of that cover. I think such a line of approach, particularly in these days, may be dangerous and misleading. For reasons already mentioned in connexion with debentures and loan capital the calculations of capital cover is often only a theoretical exercise.

As regards the calculation of dividend cover, if the net profit is struck after the deduction of debenture interest and is then related to the preference dividend requirements the figure for times covered may be quite illusory. For example, a company has a profit of £200,000 subject to debenture interest of £100,000 to service a preference dividend of £10,000. If the net profit after debenture interest is related to the cost of the preference dividend, the cover could be shown to be ten times. Yet if profits before debenture interest were to be halved, the preference dividend would not be earned.

The incidence of profits tax introduces a further complication, since the amount of profits tax actually payable depends on the amount of profits distributed in dividends. Because of these factors I make it a practice never to accept the bald statement of the number of times capital and dividend may be covered without making a further study of the figures involved. I think there is no magic in this method of measuring the worth of an investment. There can be no simple yard-stick which might determine, for instance, that a preference stock covered over ten times is a grade 'A' security and anything less than five is a grade 'B' security.

It is the quality of the business and of its management and the stability or otherwise of its earnings which, in my opinion, are the really important factors. I might perhaps illustrate this point by reference to one particular security, namely the Anglo-Iranian Oil Company. When the company lost its earnings from Persia, the investor came to realize that there was still a satisfactory level of income from the company's multifarious activities in other parts of the world. Thus, although earnings would be diminished and the preference dividend cover reduced as a result of last year's events in Persia, this belated realization that a hard core of stable revenue existed has had the effect of giving the preference shares a better investment status than was the case a few years ago.

ORDINARY SHARES

I come now to the difficult problem of ordinary shares. I would like to deal first with the question of what factors are responsible for determining the price of an ordinary share. Does it depend primarily on earnings, on dividends paid, on assets position, or on what? Prior to 1939 there was some loosely defined pattern of evaluation, but under current conditions one must admit that the real basis is more than ever before simply one of supply and demand. At present in the case of quite a few good companies the ordinary capital is valued at less than the surplus of current assets over current liabilities. There are some shares which show a yield on earnings of over 50 per cent, others stand well above their par value and yet the company is trading at a loss; others are valued at prices which reflect a substantial figure for goodwill over and above the value of the company's tangible assets

In this mosaic, the most outstanding feature is probably the yield on current dividend, or on the dividends which may be expected during the ensuing few years. Partly because one is seldom sure exactly what represents true profit nowadays, and partly because of the complications of company taxation, the yield on earnings is for the time being taking a lesser place in the assessment of market price. To illustrate this point, if there were two companies in the same line of business with similar capital structures but one earning 30 per cent and paying 10 per cent in dividends, and the other earning 25 per cent and paying 15 per cent, I sincerely believe, however illogical it might appear, that the latter company's shares would have the higher quotation on the Stock Exchange.

Supply and Demand

A price fixed on supply and demand is, of course, a temporary and always changing basis. The intrinsic merit of a share must inevitably come to the surface at some future point of time. I think therefore that any investor who is studying the prospectus of an ordinary share issue must bear in mind these two factors: the intrinsic merit of the share, and the price which the share is likely to command on a supply and demand basis under the conditions then ruling. This latter factor should, I think, be used in a negative and not in a positive sense. In other words, one should not be tempted to buy an investment simply on the grounds that the price on a supply and demand basis might be expected to rise above what is thought to be its fair intrinsic level.

Issue by way of 'Rights'

During the last few months the type of ordinary share issue most frequently encountered has been the issue to existing shareholders by way of 'rights', usually at a price below the current ruling market price. Such an issue does not require the drawing up of a full prospectus but it comes, I think, within the orbit of my talk.

The offer of new shares to existing stockholders is usually accompanied by a statement or by a letter from the chairman of the company explaining the purpose of the issue, and giving a certain amount of information. The points in which the investor is principally interested are as follows. He will want to know the purpose for which the new money is required and what effect such expenditure is likely to have on the company's earnings. He will also like guidance as to whether the current issue is considered likely to satisfy the company's capital needs for the next few years, or whether a further issue of capital in the not-too-distant future may be necessary. Under current conditions new issues of shares by way of 'rights' have the habit of depressing the price of the share quite considerably, and somewhat paradoxically an investor does not always find it profitable to be a shareholder in a company that is expanding very fast, even although capital expenditure may be proving to be highly remunerative. It is usual in the statement or letter to give some indication as to the rate of dividend likely to be paid for the current year, which information is of course to be welcomed.

Issue by Full Prospectus

I come now to the issue of ordinary shares by way of full prospectus. In the majority of cases these apply to the introduction of shares of well-established businesses. It is unfortunately only too rare that one ever sees a prospectus nowadays of a company formed for the purpose of founding and developing a new business. The nearest approach we get to this sort of thing today is when a company, having been financed in its early stages by one of the big finance corporations, has reached a profitable stage and is ready for an issue to the public. In the case of nearly all ordinary share issues, information regarding the nature of the business and the personnel involved will have to be read carefully, and in many cases supplementary inquiries may be made from whoever is most likely to be able to give the information sought. There is not perhaps the same need to make a detailed examination of the nature of the security as is the case with debenture and preference securities, except to gauge the marginality of the equity share.

Profit and Loss Record

As regards financial information, company law requires five years' profits, Stock Exchange requirements extend this to ten years, and in some cases figures are shown for an even longer period. I think there is no doubt at all that, from the investor's point of view, the longer the record of earnings the better. I think this is particularly so at the present point of time since a ten-year record takes one to the early years of the war, and the war years are seldom a true guide to a company's earning capacity in normal times. It is, therefore, I think, particularly helpful if the record is extended so as to include two or three years of pre-war experience.

As I have said already, it is often very difficult to know what constitutes a true profit figure nowadays, not only because of the problem of deciding what are the proper provisions for depreciation but also because of the incidence of inventory profits or losses. Any information which can be given on these points, and it may often be very difficult to do so, is of course of great help to the investor.

Holding Companies

In the case of holding companies, the balance sheet of the parent company and the consolidated balance sheet or group of balance sheets will be shown. So also will particulars of consolidated profit and loss accounts. It will be remembered that many years ago holding companies were sometimes used primarily as a device for the concealment of financial information. The provisions of the new Companies Acts should have satisfied critics on this score, but I think there is now a danger of too much attention being paid to consolidated accounts and too little attention to the accounts of the parent company. This is particularly so in the case of companies having overseas subsidiaries. Consolidated balance sheets and profit and loss accounts of British companies are drawn up in terms of pounds sterling, but if the component parts relate to several different currencies, not all freely convertible one into the others, the consolidated figures may encourage the reader to draw unwarranted conclusions. I think, therefore, that proper weight should always be given to both the parent company's accounts and to the consolidated accounts.

Any information that is given about current and future dividend policy is of course of value to the investor. Calculations are sometimes made of the net asset value of the ordinary shares, showing at the same time the basis on which the fixed assets are valued. This information is undoubtedly of interest

but, for reasons already given, it has little relevance to the market price of the share. Calculations may also be made of the rate of earnings on the ordinary capital, or of how many times the current dividend is covered. Here again any such calculations are usually treated with reserve.

'Statutory and General Information'

The information contained under the heading of 'Statutory and general information' frequently contains from the point of view of the investor a lot of rather unimportant detail, and also some matters of vital concern. The two items which I think always deserve close study are the information relating to any contracts entered into between the company and its managing directors, and the principal financial transactions of the vendors. These items are of more especial interest in the case of family businesses, where the public is being invited to participate, and where the capital was formerly held by only a few shareholders.

In the case of most British public companies, the investor is not as a rule concerned with who are his fellow shareholders, so long as the capital is fairly well dispersed, whether among institutions or private investors. He may, however, be very much concerned if he is buying into what was formerly a private company, and if a considerable part of the capital still remains in the hands of the directors or their families. This is so because the interests of different bodies of shareholders may not always be in harmony. A large personal shareholder might wish to see the dividend kept as low as possible in order to avoid greater liability for sur-tax. Alternatively his interest might lie in the direction of a higher rate of dividend than would perhaps be warranted, for the purpose of selling his shares on favourable terms. One cannot follow this line of thought too far except to say that it is one of the factors which may sometimes have to be taken into consideration.

FINANCE OF PRIVATE COMPANIES

This concludes the somewhat cursory discussion of some of the principal points which have to be considered by an institutional investor when studying prospectuses of public issues. I think, however, I should add a few comments on the question of the finance of companies too small to find a public market for their securities. There are already, as you know, special facilities for the placing of this type of security, but institutions are not infrequently asked to consider taking a direct interest in the financing of relatively small companies. From the company's point of view the problem has become more acute in recent years owing to the increasing need to make provision for the contingency of death duties at a higher level, and because high taxation prevents companies and individuals from accumulating the savings out of which these companies could be financed, as was the case in former times.

Although several institutions are quite prepared to consider the making of an investment in the unquoted securities of private companies, the experience has not always been satisfactory. From the investor's point of view, if he wishes to encourage this type of investment he will probably find that he will have to study many more propositions than those which are ultimately found to be acceptable. Moreover, the investigation which is necessary will frequently absorb much more time than is the case where the prospectus of a public company has to be studied. It is only natural therefore that institutions which are prepared to consider an unquoted investment in a private company will expect to get a considerably higher return than in the case of a comparable quoted issue in a public company. It is difficult to say precisely what this extra yield should amount to, but it is usually at least 1 per cent and quite possibly more still.

The ideal form for any loan or debenture is a first mortgage debenture redeemable by means of annual allocation out of profits within a period of not more than twenty years.

A preference share issue would probably be avoided by most companies at the present time on account of the onerous nature of profits tax, but from the investor's point of view a preference share in a private company without a quotation has usually little appeal, unless it is a redeemable preference and provisions are made for redemption at early date.

As regards ordinary shares, the terms have probably got to be very tempting indeed to induce an institutional investor to take an interest, especially when it is borne in mind that a wide range of equity shares of public companies can now be bought on a very substantial earnings yield basis.

A Perplexing Problem

On the whole I think that directors of private companies will find that the institutional investor can help only in a very limited way in the solution of his financial problems. Many financial institutions are only too well aware of the problems which face directors of private companies, and they would like to be able to help more than they have been able to up to the present. The directors of financial institutions, however, have their duty to their own shareholders and that duty, among other things, is to find the best investments wherever they may be found and at the lowest cost of administration. One result of this dilemma is that small companies are finding that quite often the most profitable way of providing for the contingency of death duties is to sell out to their competitors or to amalgamate. They may get satisfactory prices for their business, but in so far as it is a further step forward in the elimination of competition it is hardly a good thing from a national point of view.

In conclusion, I need hardly say that the subject of the company prospectus is such a vast one that it is impossible to do more than touch on a few of the main points. I hope, however, that I have given you some idea of how at any rate one institutional investor approaches these problems.

WEEKLY NOTES

Sir Archibald Forbes, C.A.: F.B.I. President for Second Term

Sir Archibald Forbes, C.A., was elected for a second year of office as President of the Federation of British Industries at the annual general meeting of the Federation held in London on April 9th.

A member of the Scottish Institute, Sir Archibald was formerly a partner in the firm of Thomson McLintock & Co, Chartered Accountants. He resigned to enter industry in 1935.

In his presidential address, Sir Archibald referred to the recurring economic crises and stated that it was only by harder work and greater industrial efficiency that the country will escape from eventual national bankruptcy.

The imposition of an excess profits levy, he said, is a grave blow to industrial enterprise and competitive efficiency. A tax in this form cannot fail to be productive of inequity and stifling to initiative, and it must either be withdrawn or radically modified to remove its worst features.

Savings Figures for 1951-52

Provisional estimates of National Savings figures for 1951–52 show that total savings were £1,044 million while withdrawals were £1,037 million – giving a net savings figure of £7 million. The corresponding net figure for the previous year was £5 million.

Commenting on the figures recently, Lord Mackintosh pointed out that the new savings provided the best total since 1947–48. He was particularly pleased with the response to the new issue of savings certificates which was introduced just over a year ago. For the first time on record, more money was deposited in the Trustee Savings Banks in a year than in the Post Office Savings Bank. Trustee Savings Banks' deposits reached a new record level.

The high level of encashments is to be regretted but the fact that the Savings Movement has been able to keep new savings slightly further ahead of withdrawals than last year is a fine achievement at a time when the cost of living is rising persistently.

March Trade Returns

Provisional external trade figures for March were published last week. They are particularly significant for they represent the best that could be done for the visible trade balance before the big Commonwealth import cuts, which are bound to affect seriously this country's export position, were able to exert any influence on the trade figures.

A new record level was set up for exports but once again there was the familiar tale of good results being offset by continued high imports. Exports, including re-exports (these are playing an important part in the trade position at the moment), were £266 million last month, compared with £244 million in February. Imports, however, increased from £297 million to £333 million over the month. In consequence, the visible adverse balance worsened from £53 million to £67 million. This means that in March the annual adverse visible balance was running at a rate something like £400 million. This is already quite a stiff target for the invisible items to close and leave a surplus into the bargain – which is the Chancellor's target for this year.

Two important unknowns have now to be added into the situation. First, what is the effect of the import cuts in this country going to be? Second, how serious will be the other Commonwealth cuts on this country's exports? An entirely new trade situation may be in existence when the April trade figures come to be published.

Retail Sales in February

In the last month or two the retail pattern has shown sustained sales of foodstuffs (an actual increase in sales here, to some extent due to the rise in prices) and a fall in most categories of non-food merchandise. This picture was broadly true for February. Compared with the figures recorded a year ago in February, the non-food sales look exceedingly depressing this year. It can be argued from the official Board of Trade monthly retail sales returns that at the same time last year there were certain special factors in operation to boost sales, but the decline is so marked, from the results of February 1951 and to a degree for the same month of 1950, that it is useless to indulge in optimistic interpretations based on the statistical peculiarities of the post-Christmas pre-Easter period. February was a bad month and that is all there is to it.

Taking the weekly average sales for the month and comparing them with the results of a year ago, the heaviest declines were recorded among men's and boys' wear, furniture and furnishings, and women's and children's wear in that order. Clothing and footwear generally had a very bad month. London continues to be one of the worst areas in retail sales, which is interesting since the areas of growing unemployment are in the north.

Smaller Gold Losses

There seems to be little doubt that the Budget gave some notable relief to the gold and dollar reserve position. March saw the rate of loss almost halved and the Chancellor was able to say that towards the end of the month, the reserves had actually risen. It is not likely that a change as sudden as this could have been imparted by the import cuts and seasonal improvements in the country's external trade position. Much more likely has been a sudden increased

confidence in sterling abroad which has made itself felt through the devious and complicated markets in grey sterling. The way in which the pound has been hardening abroad of recent weeks is one sign that this is so.

The Chancellor has pointed out that some of the relief last month came from non-recurring items such as special gold purchases from South Africa and rubber sales to the United States under the 'barter' trade scheme which was announced recently. But even when allowance has been made for such items the March figures are encouraging. The following table sets out the movements of the reserves since the third quarter of 1949 when the pound was devalued.

(Millions of dollars)

Period	Gold and $ surplus	Marshall Aid etc.	Change in gold reserves	Gold reserves end of quarter
1952 –				
1st quarter.. ..	− 636	+ 1	− 635	1,700
1951 –				
4th quarter .	− 940	+ 6	− 934	2,335
3rd quarter .	− 638	+ 46	− 598	3,269
2nd quarter ..	+ 54	+ 55	+ 109	3,867
1st quarter.. ..	+ 360	+ 98	+ 458	3,758
1950 –				
4th quarter ..	+ 398	+ 145	+ 543	3,300
3rd quarter ..	+ 187	+ 147	+ 334	2,756
2nd quarter ..	+ 180	+ 258	+ 438	2,422
1st quarter.. ..	+ 40	+ 256	+ 296	1,984
1949 –				
4th quarter ..	− 31	+ 294	+ 263	1,688
3rd quarter ..	− 539	+ 313	− 226	1,425

Reassuring as last month's results are after the frightening rate of loss in the autumn, the level of the reserves is now seen to be approaching the danger line. It is to be hoped that before long the rate of deceleration of loss will be changed into a rate of increase. The Chancellor's remark suggested that such a state of affairs is possible any time now. When it comes the mere fact of higher reserves will be no cause of congratulation unless the increase is a large one. The time of a seasonal improvement in the reserve position is at hand. Further negative figures would be fatal.

Is Disinflation Working ?

One of the purposes of using monetary controls and priority schemes for scarce materials is to switch workers from non-essential to essential industries. It was said last year, and the picture has not changed radically since, that there were half a million men at work in the wrong industries. The recent reluctance of the public to buy in the shops and the collapse of certain export markets has put several consumer goods industries in difficulties. Unemployment and short-time are on the increase.

While this has been going on, some industries have been able to attract more recruits than for a long time past. The coal industry and the railways are notable examples of this. So far as the mines are concerned, there was a turn for the better last year and the improvement has gone on into this one. Since 1949 there had been a steady deterioration in the employment figures in coal but this recent change of trend has raised the total from just under 695,000 at the beginning of the recent coal winter to 710,000 by the middle of March. It remains to be seen how much of this improvement is held through the year and how much has to be set against wastage of man-power compared with last year. This last is becoming an increasing problem for the mines.

If the squeeze on consumer goods should go on there is little doubt that the prospect of steady long-term employment for men in some of the 'neglected' industries will become more and more attractive. This is the other side to the tale of disrupted labour forces and difficult times in textiles, boots and shoes and some other industries. In all areas there is by no means the prospect of an easy switch, of course. Not every contracting industry has a convenient coal mine, railway marshalling yard or engineering works in the district. Contracting some industries in order that others may expand is a clumsy solution – but it may prove better than no solution at all which is what inflation and permanent boom conditions for everyone holds out. The last few years have taught us that inflationary booms are not booms at all – unless the rich relative turns up at the critical moment. But he has turned up for the last time.

Industrial Output in February

The London and Cambridge Economic Service index for February shows a rise of seven points on the month (the 'B' series shows a rise of six) but this seasonal upswing is much weaker than at the same time last year. Then it increased by eleven points.

A full list of components to the index is not yet available, but from those which are published it would seem that the index is now feeling the impact of the drop in textile production and the swing-over among engineering and aircraft firms to armaments work. It will be remembered that the index does not record finished armament production. Food output remained stable over the month and there was a large increase in the fuel and power index – no doubt a reflection of the better coal figures.

In due course, the official index, which showed a remarkable increase for January over December and which promised (according to preliminary estimates) to record a comparative slackening of activity compared with February last year will be available. It is likely that the London and Cambridge figures will be broadly corroborated since the indexes move fairly close together. If this confirmation should come, the critical issue will be how soon the downward trend can be stopped, for on a large increase in industrial output depends this year the success of Budget strategy.

FINANCE AND COMMERCE

Although rather slow to develop after the Easter holiday, stock markets maintain a fair degree of confidence. Investment demand remains on limited lines and price fluctuations result as much from the 'thinness' of market conditions as from the amount of business passing. The undertone, however, is firm enough.

Wolsey's Stocks

A question of taxation is involved in the accounts of Wolsey Ltd, the makers of underwear, hosiery and knitted outerwear. Attention is drawn to the matter in the notes on the accounts, Note 4 reading: 'Should the Inland Revenue's interpretation of the market value of stocks be less conservative than that adopted by the company, a tax liability additional to that provided in the accounts will arise. Towards such liability, a special reserve of £100,000 has been created.'

The directors, in their report, state that 'trading conditions during 1951 were exceptional, being influenced by abnormal fluctuations in both raw material costs and public demand. Wool prices at the end of the year', they point out, 'were 55 per cent lower than in March. Stocks have been taken on the basis of cost or the price ruling at December 31st, 1951, whichever was the lower.' The company has yet to convince the Inland Revenue.

'We contend', says the chairman, Mr A. L. Miller, 'that replacement prices constitute market value, but their (the Inland Revenue) interpretation may not be so conservative and they may contend that the stock is shown in the balance sheet on too low a basis.

'Should they succeed in establishing their contention, then a tax liability, additional to that provided in the accounts, will arise.

'If this should happen, it follows that the tax liability for 1952 must be correspondingly reduced.'

Gamage Angle

The taxation angle is also prominent in the accounts which we reprint this week of A. W. Gamage Ltd, the well-known London store. Trading profit this time is down from £362,964 to £311,532 and after taxation from £132,269 to £82,932. The chief

A. W. GAMAGE LIMITED
Report of the Directors and Profit and Loss Account

The Directors submit their Report for the year ended January 31st, 1952, together with the audited Balance Sheet as at that date. The following is the **Profit and Loss Account** for the year: (The corresponding figures for 1951 are shown in italics.)

			1952		*1951*
	£	£	£	£	£
Profit on Trading			311,532		*362,964*
Deduct: Depreciation on Fixtures, Fittings and Equipment		13,417		*10,410*	
Depreciation on Motor Vehicles		1,927		*1,790*	
Renewals		—		*8,160*	
Directors' Remuneration:					
As Directors	2,833			*3,250*	
As Executives, including Pension Fund Contributions (Excluding £750 Pension to Past Director)	35,558	38,391		*39,383*	
Contribution to Staff Pension and Life Assurance Scheme		29,493		*27,678*	
Audit Fee		525		*525*	
			83,753		*91,196*
Net Profit for the year before taxation			227,779		*271,768*
Deduct: United Kingdom Taxation based on the profits for the year (estimated):					
Profits tax		71,000		*53,000*	
Income-tax		64,000		*81,000*	
Income-tax, Schedule A, 1951–52		5,440		*5,499*	
Additional taxation on profits of the previous year		4,407		—	
			144,847		*139,499*
Net Profit for the year after taxation			82,932		*132,269*
Add: Reserve for Excess Profits Tax not now required			14,903		—
Taxation provisions for past years not now required			—		*1,204*
Balance of profits brought forward from the previous year			113,748		*109,453*
Total available for distribution			211,583		*242,926*
Appropriations					
Transfer to Reserve for Fixtures, Fittings, Equipment and Motor Vehicles		—		*5,134*	
Transfer to Contingencies Reserve Account		—		*50,000*	
Dividend on Preference Stock for year to date (less tax)		5,053		*5,294*	
Dividends on Ordinary Stock for year to date (less tax):					
Interim Dividend of 10 per cent	26,250			*27,500*	
Proposed Final Dividend of 15 per cent	39,375	65,625		*41,250*	
			70,678		*129,178*
Balance of Profits carried forward to the following year			£140,905		*£113,748*

The Directors have decided that distribution by way of an Interim Dividend on the Ordinary Stock will be discontinued for the time being – see reference in the Chairman's Statement.

The Director retiring by rotation is Miss Enid Hopper who, being eligible, offers herself for re-election.

Messrs Fincham, Vallance & Co, the present auditors to the Company, will continue in office pursuant to Section 159 (2) of the Companies Act, 1948.

Warrants for the dividends on the Ordinary Stock will be posted not later than April 24th, 1952, to holders thereof registered on March 15th, 1952.

By order of the Board,
S. RYDE,
Secretary.

March 20th, 1952.

A. W. GAMAGE LIMITED. Balance Sheet, January 31st, 1952

		1952	1951
	£	£	£
Share Capital Authorized			
175,000 5½ per cent Cumulative Preference Stock Units of £1 each	175,000		175,000
1,000,000 Ordinary Stock Units of 10s each	500,000		500,000
150,000 Ordinary Shares of 10s each	75,000		75,000
	£750,000		£750,000
Share Capital Issued			
175,000 5½ per cent Cumulative Preference Stock Units of £1 each fully paid	175,000		175,000
1,000,000 Ordinary Stock Units of 10s each fully paid	500,000	675,000	500,000
Revenue Reserves and Surplus			
Employees' Pension and Benevolent Fund (payments during year £6,061)	19,129		25,189
Sinking Fund Invested *per contra*	923		877
Reserve for Income Tax Schedule D 1952–53 (estimated)	64,000		81,000
Excess Profits Tax held over pending completion of deferred repairs	—		14,903
Reserve for Fixtures, Fittings, Equipment and Motor Vehicles	50,000		50,000
Contingencies Reserve Account	400,000		400,000
Profit and Loss Account	140,905	674,957	113,748
Total Capital, Reserves and Surplus		1,349,957	1,360,717
Current Liabilities			
Trade and Other Creditors	274,710		282,686
Profits Tax (estimated)	71,000		53,000
Proposed Final Dividend on Ordinary Stock (less Tax)	39,375		41,250
Total Current Liabilities		385,085	376,936
		£1,735,042	£1,737,653

E. M. GAMAGE
H. W. HANKINS } *Directors.*

	Cost or Valuation	Amounts written off	1952	1951
	£	£	£	£
Fixed Assets				
Goodwill at cost, less amounts written off	1	—	1	1
Freehold Property at Southwark, at cost	46,227	16,227	30,000	30,000
Leasehold Premises per valuation of Chartered Surveyors dated September 10th, 1951 (amortisation provided until January 31st, 1957)	370,974	70,974	300,000	300,000
Fixtures, Fittings and Equipment:				
At the net amount standing in the Company's Books on July 1st, 1948	1	—	1	1
Additions since July 1st, 1948, at cost	107,338	31,808	75,530	64,899
Motor Vehicles:				
At the net amount standing in the Company's Books on July 1st, 1948	1	—	1	1
Additions since July 1st, 1948, at cost	7,705	4,709	2,996	4,376
Shares in Two Subsidiary Companies:				
At the net amount standing in the Company's Books on July 1st, 1948, plus addition since at cost	7	—	7	7
(The two Subsidiary Companies have not traded during the year and in the opinion of the Directors, in view of the insignificant amounts involved, it would be of no real value to the members of the Company to prepare group accounts.)				
Total Fixed Assets	£532,254	£123,718	408,536	399,285
Current Assets				
Stocks at cost or under, as certified by the Chairman		526,490		492,776
Trade and Other Debtors *Less* Reserve for Doubtful Debts		163,274		132,372
Hire Purchase Accounts *Less* Provision for Unearned Profit		69,585		61,187
Payments in Advance		11,233		15,789
Sinking Fund Policy re 124 Holborn		923		877
Tax Reserve Certificates		151,550		151,250
Cash at Bank and in Hand		403,451		484,117
Total Current Assets			1,326,506	1,338,368
			£1,735,042	£1,737,653

reason why, in spite of increased business, the company has not been able to maintain its profit, says Mr Eric Gamage, the chairman, is that 'owing to the price crash in the last few months of the year, we were – like others – compelled to write substantial amounts off the value of our stocks. These markdowns', he says, 'included a by no means inconsiderable sum in respect of purchase tax on goods which, although liable to tax when bought, were later – in the general confusion – brought into Utility ranges.'

Mr Gamage welcomes the end of Utility but regrets that the Commissioners of Customs and Excise have given notice of their intention to apply 'their notorious system of "uplift" to the cost of this same merchandise' – goods which used to be known as the 'top end of Utility' which will now become subject to purchase tax.

Mr Gamage says: 'In nearly every trade with which we deal, there are to be found variations of purchase tax on articles of merchandise of the same class. The "uplift" depending largely on the ability and courage of manufacturers to resist the assessments which are made on them.'

In the accounts the combination of directors' report and profit and loss account is an interesting feature.

Neglected Principle

A scheme of arrangement which has recently been sanctioned by the shareholders in Lloyds (Newport) Ltd, a brewery company, emphasizes how important it is when dealing with the affairs of a limited company to know the company through its memorandum and articles. It is a first principle, yet so often neglected.

In this case, the company issued preference capital in a manner beyond its powers. When the company was formed in 1895, an issue of 5,000 £10 6 per cent preference was made which, under the company's memorandum, was given the right to rank in priority to the other shares then existing and for the future. The £10 shares were subsequently divided into £1 shares but that, of course, did not affect the fundamentals.

In November 1950, an issue of £150,000 of 6 per cent preference shares was made, these shares being stated to rank *pari passu* with the existing preference. Ansells Brewery Ltd acquired the ordinary capital in July last year and it may be that the error was discovered by the new owners.

The line taken has been to ratify the 1950 issue of preference and to regularize the payments of dividend made since. A matter of doubt under the existing articles has also been cleared up by a confirmation that the company's preference capital has the right in a winding-up to arrears of dividend. The new preference are confirmed in their *pari passu* standing with the old, but it is also made clear that there can be no further issue of preference ranking *pari passu* without the prior sanction of the existing preference holders. A further provision gives to the preference capital the right, on a return of capital in a winding-up, to repayment at a premium of 1*s* 6*d* per share.

Money Market

Applications for Treasury bills on April 10th totalled £297·2 million, a decrease of some £5 million on the previous week. Raising the bid to £99 8*s* 3*d* the market received 62 per cent of requirements against 58 per cent the week before. The average rate was £2 7*s* 0·14*d* per cent and this week's offer is reduced to £200 million.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Excess Profits Levy

Sir, – In his Budget speech, the Chancellor of the Exchequer said that he proposed to simplify the new levy and to avoid the delay, complications and waste of man-hours involved in the old excess profits tax.

The publication of the Finance Bill has shown the Chancellor's words to be nothing more than idle chatter, for we have in Part V and the Eighth to Eleventh Schedules some of the most obscure and difficult drafting to be found in any taxing statute. By comparison the excess profits tax provisions of the Finance (No. 2) Act, 1939, and of the Finance Act, 1940, read like a child's story-book. Nor, in spite of the excessive use of legislation by reference, is there any appreciable reduction in the length of the provisions themselves. The original excess profits tax provisions of the 1939 (No. 2) Act were contained in twenty pages. These were expanded by the first amending Act to some sixty pages of effective matter. As against this, the much more difficult provisions now proposed cover some fifty-two pages. And this comparison is made without the inevitable flood of amendments which will be found necessary during the first year's working.

Now let us have a look at the detail of the Bill itself. After reading through the preamble contained in clauses 31 and 32 we come to the first computation provisions in clause 33, which deals with standard profits. Here we find that in place of the accruing profits computation of excess profits tax there is a thing called 'the ascertainment of undistributed profits and over-distributions of profits' for a period from January 1st, 1948, to a date twelve months before the end of the chargeable accounting period.

In due course we reach clause 40 and find that the rules for 'the ascertainment' are contained in the Ninth Schedule, and in addition we discover that

separate computations have to be made for each accounting period any part of which is contained in the period mentioned above which commences on January 1st, 1948. In search of our rules, we turn to the Ninth Schedule. Here we get to the meat of the matter, and the following extract is a fair sample, not only of the four-page schedule required to deal with 'the ascertainment of undistributed profits and over-distributions of profits', but of the time-wasting methods of drafting used throughout the whole of the levy provisions of the Bill –

'3. Where a notice under subsection (1) of Section twenty-two of the Finance Act, 1937 (which relates to subsidiary companies) is in force, the net amount distributed for the accounting period by way of dividend or cash bonus, and the value of any assets distributed in the accounting period, shall be computed for the purposes of sub-paragraph (3) of paragraph 1 of this Schedule as if subsection (1) of Section thirty-eight of the Finance Act, 1947 (which directs that certain income shall be left out of account) had not been passed, and if the subsidiary to which the notice relates pays to the principal company an amount by way of reimbursement of profits tax which by virtue of the notice having been given is payable by that company for the accounting period, the references in paragraph (c) of the said sub-paragraph (3) to the profits tax payable or which would have been payable for the accounting period shall be construed as references to those amounts adjusted as the Commissioners may in their discretion determine.'

This sort of thing is an inevitable consequence of patchwork taxing legislation. Income-tax principles were adapted for profits tax and, now that profits tax rules are adapted for the levy, counter-adaptations have been made.

In conclusion, Sir, I submit –

(a) That legislation by reference, to the extent that it has been used in this Bill, is undesirable in a taxing statute;

(b) That, as figures of capital employed at January 1st, 1947, have already been agreed in the cases of most liable companies, there is no good reason for abandoning the fair and logical principles of capital adjustment used for excess profits tax in favour of the crude method now proposed;

(c) That, because the major part of the total man-hours expended in the average case relates to (i) ascertainment of facts, and (ii) discussion between accountant and inspector as to the meaning and application of the relevant statutes, and not to the mere putting together of the computation itself, the levy will bring no reduction of the time required to administer a tax on excess profits; and therefore

(d) That Part V and the Eighth to Eleventh Schedules of the Bill should be entirely re-drafted.

Yours faithfully,

Sheffield, 1. F. L. MOULDING.

Over the Border

Sir, – Your issue carrying the significant date of April 5th contains some verses which open with:

'All persons of substance, I'm perfectly sure,
Should seek some acquaintance with income tax law'.

The words 'sure' and 'law' are meant to rhyme, a fact which, I assure you, will be completely incomprehensible to those of my fellow-countrymen who have not been influenced by Dr Johnson's famous remark and who, as you know, are twitted so often about the intrusive 'r'.

The English, of course, without realizing it, also intrude the 'r' in a different way and the following story makes an immediate appeal to the Scots (who, of course, speak a purer form of English than the English!) while the majority of Englishmen don't see the point at all.

A Scotsman was smilingly asked by an Englishman 'Sandy, how many r's are in birrrd?' To which Sandy replied in a quiet voice, 'Oh, just one – the same as in "India"'.

Yours sincerely,

Glasgow, C2. A. G. McBAIN.

Tracing Old Wills

Sir, – I understand that after the Wills Act of 1850 came into force, all wills which had previously been in the possession of the various church dioceses were lodged at Somerset House. Can any of your readers inform me whether there is, normally, any great difficulty and expense involved where it is desired to trace one of these old wills? Presumably in cases where some estate but no will existed there would be a record of Letters of Administration where such were granted?

Yours faithfully,

ANTIQUE.

[The Principal Probate Registry at Somerset House informs us that ecclesiastical probate records are held both there and at various district registries and Record Offices. Searches cannot usually be made officially, but the Literary Department of the Registry will advise inquirers on the best way to obtain any information sought. – Editor.]

An Umbilical Excess

Sir, – There are many legitimate complaints which could be made about the way in which the excess profits levy has been drafted in the Finance Bill, but none more so than the constant harping in the Bill on *'the severance of the nexus'*. This phrase is referred to twelve times in the Bill, while there are three further references where *'the nexus is deemed to be severed'*.

One is surely entitled to inquire if the draftsman has an obsession about the Queen of Hearts in *Alice in Wonderland* or alternatively, whether he is afflicted with some form of inverted Œdipus complex.

We have had many approaches to taxation problems in this country over the last hundred years, but we have surely not yet descended to the level of the approach umbilical?

Yours faithfully,

London, W1. A. G. DAVIES.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Extracts from the Report of the Council for 1951

The forty-seventh annual general meeting of the Association of Certified and Corporate Accountants will be held in the lecture hall of the Chartered Auctioneers' and Estate Agents' Institute, 29 Lincoln's Inn Fields, London, WC2, on Tuesday, April 29th, 1952, at 12 noon. We give below extracts from the report of the Council for the year 1951.

EXTRACTS FROM THE REPORT

Membership

During the year, 380 new members were admitted to membership; 18 former members were restored to the register and 4 were readmitted; and 49 Associates were advanced to Fellowship. The membership of the Association at the end of the year was 7,965, consisting of 2,352 Fellows and 5,613 Associates.

Council and Committee Meetings

During the year, 10 Council meetings and 124 committee meetings were held. There were also 45 meetings of joint committees, delegations, etc.

Students and Graduates

The number of students and graduates (including articled clerks) on the register at December 31st, 1951, was 10,326. During 1951 there were 1,446 new registrations and 8,847 renewals; 33 students were retained on the register while undergoing National Service.

Exemption from the Preliminary Examination

Developments in the sphere of secondary education have made it necessary for the Council to keep under review the conditions subject to which exemption from the Preliminary examination may be granted. In particular, requirements under the Senior Schools Certificate of the Ministry of Education, Northern Ireland, under consideration at the time of the last annual report, have been agreed.

Certain other adjustments have also been made and a complete list of exempting examinations at present recognized is given in Appendix II.[1]

Examinations

The number of applications to sit the Association's examinations received during the year was 2,059, as compared with 2,172 in 1950. The Applications Committee again points out that before supporting an application members should assure themselves that the applicant satisfies the standard of general education laid down and also that his employment is such as to provide the requisite training and practical experience.

The number of candidates sitting for the June and December 1951 examinations totalled 3,946, of whom 1,704 (43 per cent) passed. The corresponding figures for 1950 were 3,870 and 1,442 (37 per cent). The Council is pleased to note the improvement in the standard of performance. The results indicate that candidates are again realizing that success is dependent on adequate preparation.

Revision of Examination Syllabus

Early in 1951 the Council set up an *ad hoc* committee to inquire into the examination syllabus, the future conduct of the examinations and such other related matters as might appear to call for attention.

The whole matter was investigated with great care by the committee, and its recommendations were duly submitted to, and approved by, the Council on December 18th, 1951.

[1] Not reproduced – Editor.

The committee did not find it necessary to suggest any very extensive revision of the syllabus. Its recommendations were a complete rearrangement of the time-table for the Final examination, together with some revision of the scope of one paper in the Intermediate examination, and the elimination of one optional subject from the Preliminary examination and the inclusion of two others more in consonance with current requirements.

Full particulars of the alterations, most of which take effect from and including the June 1953 examinations, are given in Appendix III.[1]

The syllabus, as revised, makes no change in existing standards. In the opinion of the Council, it will prove more suitable in scope and subject matter, more adequate in examination periods and more generally satisfactory in every way.

Examinations Overseas

The Council has also adopted a recommendation of the committee referred to in paragraph 13 with regard to the setting of alternative papers in local law at overseas examination centres.

The Council has decided that, with effect from and including the June 1953 examinations, papers in local law will be discontinued in Nigeria and India. Students in these countries will therefore be required after the December 1952 examinations to sit the same papers as United Kingdom students.

Students' and Graduates' Fees

The annual report for 1950 gave details of the Council's decision to increase admission fees and subscriptions for members and examination sitting fees. The same circumstances as compelled the Council to take this step have forced similar action in relation to students' and graduates' fees. As from January 1st, 1952, the annual fee for registered students and registered graduates has been raised from 10*s* to £1 1*s*.

Overseas Branches

During the year two new local committees were formed in British Guiana and Nigeria. Local committees are not granted the full status of branches of the Association, but their services are found of particular value in a representative and advisory capacity. Liaison with overseas branches and local representatives in various parts of the world has been fully maintained.

The services of overseas branches, local committees and local representatives are much appreciated by the Council and very real assistance has been provided in many directions, especially in connexion with proposed local legislation in which the interests of accountants are concerned. The Council is glad of the opportunity of recording its gratitude to those overseas members who assist in this way.

South Africa

Important modifications in the law affecting the practice of accountancy in the Union of South Africa have been made by the Public Accountants and Auditors Act, which came into operation on November 1st last. It is too early to say what effect the provisions of the Act will have on the functions and activities of the South African branch. A committee of the Council is considering the matter in all its aspects. In the meantime the Council records its appreciation of the energy and determination with which, in spite of difficulties, the Council of the South African branch has watched over the interests of the members.

Legislation Overseas

Legislation affecting the profession in other parts of the world has also been kept under constant review, and such steps as were deemed necessary to safeguard the interests of members taken. As previously noted, there is a tendency to restrict practising rights to those who are members of locally recognized bodies of accountants.

Annual Conference, 1952

In view of the fact that The Sixth International Congress on Accounting will be held in London from June 16th to 20th, the Council has decided not to hold the Association's annual conference, which would normally occur at about the same time. It may, however, be possible to arrange for members of the Association to meet during the Congress.

Professional Conduct

During the year questions have arisen with regard to matters of an ethical character. To clarify the position Appendix IV sets out the accepted professional attitude to some of these questions.[1]

Co-ordinating Committee

At the annual general meeting in April last the then President in his address indicated that the Co-ordinating Committee of the recognized accountancy bodies was, in conjunction with the Board of Trade, exploring the possibility of securing an amendment of the Companies Act, 1948. He explained that if an amendment in the terms envisaged was obtained it would mark an important step towards achieving the main objectives of the original draft Accountants Bill, but that certain preliminary and important steps would have to be taken to create a situation favourable to the acceptance of such an amendment. The Co-ordinating Committee has been considering this matter with a view to securing an amendment of Section 161 of the Companies Act so as to extend the application of that section to all companies and, in addition, to strengthen the requirements of the Act in respect of the qualifications of persons for appointment as auditor. Progress has been made and proposals formulated and the Co-ordinating Committee has decided to recommend to the Board of Trade that these proposals be implemented. There are good grounds for the hope that the endeavours of the committee may at last be successful.

[1] Not reproduced – Editor.

Absorption

A broad outline of the preliminary steps to create a situation favourable to securing the professional objectives referred to in the preceding paragraph was given in a circular letter sent to all members on November 12th last. As was therein stated, the proposals are the result of constructive and realistic consideration by the interests concerned. Their purpose is to remove deterrent influences; and their adoption is essential if important public and professional interests are to be legally and effectively safeguarded. The circular summarized the nature, extent and the underlying conditions of the proposals and also the reasons which counsel their acceptance.

As the proposals cover only those members of the bodies named in the circular who can satisfy the conditions laid down each application form has to be scrutinized and verified. Until this arduous task is completed it is not possible to state with any degree of accuracy the number who satisfy the conditions and are otherwise acceptable. As soon as this information is available a further communication will be sent to all members of the Association, and an extraordinary general meeting held, at which the proposals will be submitted for consideration and, if thought fit, adoption.

Sir Thomas Gardiner Committee

Towards the end of 1950 the Government appointed a committee, under the chairmanship of Sir Thomas Gardiner, 'to consider and advise on the future organization, structure and remuneration of the civil service class of professional accountants,' and the Association was invited by the committee to furnish such observations as it thought fit on the matters within the terms of reference. A memorandum was accordingly prepared and placed before the committee in the early part of 1951. No report has yet been issued.

Staff

To fill the vacancy caused by the resignation of Mr N. A. H. Stacey, the Council has appointed Mr John Raymond Sparey, B.A., as an assistant secretary to the Association.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on April 2nd, 1952, who completed their Fellowship or Membership before April 15th, 1952.

Associates elected Fellows

Broadie, Frank; 1929, A.C.A.; (Harvey Longrigg & Crickett), Dickinson Chambers, 1 Dickinson Street West, Manchester, 2, and at Blackpool.
Clark, Basil Arnold; 1935, A.C.A.; 73 Ethelburga House, 91–93 Bishopsgate, London, EC2.
Davie, Howard Charles; 1929, A.C.A.; (Haythornthwaite & Norris), 20 Richmond Terrace, Blackburn.
Denton, Francis Vernon, T.D.; 1937, A.C.A.; (Edward Denton & Son), 30 Exchange Street East, Liverpool, 2, and at Chester.
Drakeley, Stanley John; 1929, A.C.A.; (Clay, Russell & Co), 24A Coton Road, Nuneaton, and at Atherstone and Hinckley.
Edmonds, Victor Thomas; 1942, A.C.A.; (*Wrigley, Cregan, Todd & Co), 10–12 Copthall Avenue, London, EC2, and at Guildford.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Gildon, Clive; 1926, A.C.A.; (Clive Gildon & Co), 84 Borough Road, Middlesbrough.
Hoddell, Thomas Roland, T.D.; 1933, A.C.A.; (Clay, Russell & Co), 24A Coton Road, Nuneaton, and at Atherstone and Hinckley.
Horton, Robert George Chandler; 1938, A.C.A.; (Williams, Stoker & Co), 9 Bedford Row, London, WC1.
Kean, Douglas James, T.D.; 1936, A.C.A.; (Russell Tillett & Co), 18 St Swithin's Lane, London, EC4, and at Bradford and Manchester.
Lowick, Peter Morris, D.F.C.; 1947, A.C.A.; (*Lowick & Simpson), 69 Queen Square, Bristol, 1.
Sadie, Albert; 1927, A.C.A.; (Passer, Sadie & Co), Devonshire Chambers, 146 Bishopsgate, London, EC2.
Shears, Willie Henry; 1936, A.C.A.; (*Shears & Gilbey), 92 Gloucester Place, London, W1, and at Ruislip.
Sheppard, Alfred Kenneth; 1928, A.C.A.; (*Hogg, Bullimore & Co), 71 The Close, Norwich, and at London.
Sisson, Henry John Hancock, B.A.; 1947, A.C.A.; (Winter, Robinson, Sisson & Benson), 16 Market Street, Newcastle upon Tyne, 1.
Sladen, Kenneth Reginald Lambart; 1931, A.C.A.; (Wilding, Sladen & Co), 78 Buckingham Gate, London, SW1.
Sprung, David Harris; 1930, A.C.A.; (*Rubens & Co), 166–168 Bishopsgate, London, EC2.
Trent, Simon; 1947, A.C.A.; (S. Trent & Co) and (Helman, Trent & Co), 415 Green Lanes, Harringay, London, N4.

(*Not in England or Wales*)
own, Eric William; 1937, A.C.A.; (*Allan, Charlesworth & Co), 83 Phayre Street, Rangoon.

Admitted as Associates
(*Not in Practice*)

Ainslie, William, 42 Cleveland Road, Barnard Castle, Co Durham.
Bailey, Eric Sidney, with *Thomson McLintock & Co, 57 King Street, Manchester, 2.
Bendall, Denis George, with Champness, Corderoy, Beesly & Co, 10 St Swithin's Lane, London, EC4.
Smith, Thomas Leighton, with *Hough & Son, 1 Newgate Street, Newcastle upon Tyne, 1.

(*Not in England or Wales*)

Murray, Kathleen Durno, c/o Bank of New Zealand, Wellington, New Zealand.

Personal

MESSRS BOOTH, ANDERSON & Co regret to announce the death on April 4th, 1952, of Mr W. B. ANDERSON, M.C., C.A., a founder partner of the firm. The practice will be continued under the same firm name by the existing partners, Mr M. D. BOOTH, F.C.A., Mr J. W. KELSEY, M.C., F.C.A., and Mr C. B. CHRISTIE, C.A.

MESSRS HAYS, AKERS & HAYS, Chartered Accountants, of 1 Queen Victoria Street, London, EC4, announce that Mr C. O. WEBB, F.C.A., their senior partner, and Mr L. A. BADDELEY, F.C.A., retired from the partnership on March 31st, 1952. Mr C. O. WEBB has been a partner in the firm for fifty-eight years and Mr L. A. BADDELEY for forty-three years. Mr E. J. GAMBLE, A.C.A., A.S.A.A., who has been a senior member of the staff for a number of years, has been admitted to the partnership. The name of the firm will remain unchanged, and the partnership will be continued by Messrs C. R. AKERS, F.C.A., E. J. G. WEBB, F.C.A., D. E. WEBB, F.C.A., H. WILCOCK, A.C.A., W. N. HUNTER SMART, C.A., and E. J. GAMBLE, A.C.A., A.S.A.A.

MESSRS H. W. VAUGHAN & Co, Chartered Accountants, of 12 Christina Street, Swansea, announce that as from March 31st, 1952, Mr WILLIAM REES, F.C.A., has retired from the partnership upon accepting an appointment under the Colonial Office. They also announce that as from April 1st, 1952, the firms of FRANCIS & WILLIAMS, Incorporated Accountants, and H. W. VAUGHAN & Co, Chartered Accountants, have been amalgamated under the style of FRANCIS, WILLIAMS & VAUGHAN. The address will remain as above.

MR H. F. PARKER, F.A.C.C.A., A.C.I.S., of Cardiff and Cowbridge, has taken into partnership his former senior assistant, Mr G. L. CHICK, A.S.A.A., as from April 1st, 1952. The practice will be continued under the style of H. F. PARKER & Co.

MESSRS HERBERT PEPPER & RUDLAND, Chartered Accountants, of National Provincial Chambers, Walsall, announce that as from April 6th, 1952, they have admitted into partnership, Mr FRANCIS DAVID JEFFRIES, A.C.A., who served his articles with the firm and has since been a senior member of their staff.

MESSRS JOSOLYNE, MILES & Co, Chartered Accountants, of London, Manchester and Paris, announce that Mr GEORGE EMMERSON, F.C.A., retired from his partnership in the firm on April 5th, 1952, and that Mr JOHN HUBERT WHITTLEY, A.C.A., has been admitted as a partner from the same date.

MESSRS HOWARD SMITH, THOMPSON & Co, Chartered Accountants, of Birmingham and London, announce the admission of Mr B. G. ROSE, A.C.A., as a partner resident in Birmingham. Mr ROSE has been a member of the staff for a number of years.

Professional Notes

Mr G. L. C. Touche, B.A., F.C.A., has been appointed chairman and managing director of the London and South American Investment Trust, chairman and managing director of the Sphere Investment Trust, and has been elected a director of the International Investment Trust and the Trust and Agency Company of Australasia Ltd.

Mr A. G. Touche, A.C.A., has been elected a director of the Atlas Electric and General Trust.

Mr J. H. Robson, M.C., J.P., A.C.A., secretary of Fenwick Ltd, has been appointed a director of the firm.

Thirty-five Years' Service

Sir Charles Pain, J.P., F.C.A., senior partner in the firm of Hubbart, Durose & Pain, of Nottingham, recently ended thirty-five years' service for the Conservative Party in Nottingham when he relinquished the presidency of the Nottingham Conservative Federation. Sir Charles is a past-president of the Nottingham Society of Chartered Accountants.

Chartered Accountant to be President at Quaker Conference

Mr Wilfrid E. Littleboy, F.C.A., senior partner in the firm of Littleboy, Gillett & Co, Chartered Accountants, of Birmingham, is to be President at the tercentenary conference of the Society of Friends which is to be held at Oxford in July.

Nearly a thousand Quakers from all over the world will be present; about 300 will come from various parts of Great Britain and rather more than half from America.

Mr Littleboy has always been closely associated with the activities of the Society, and has held many offices, including that of Clerk (chairman) of the Friends' Yearly Meeting in London for a period of nine years.

In Parliament

MILLARD TUCKER COMMITTEE

Mr HOUGHTON asked the Chancellor of the Exchequer when he expects to receive the second report of the Millard Tucker Committee.

Mr BOYD-CARPENTER: I assume that the hon. Member means the report of the second committee under Mr Tucker's chairmanship. I am unable to forecast when it will be made.

Hansard, April 8th, 1952. Written Answers, Col. 208.

BRITISH FIRMS: EMIGRATION

Sir JOHN MELLOR asked the Chancellor of the Exchequer whether he will now permit United Kingdom companies to emigrate to British territories within the sterling area without let or hindrance.

Mr R. A. BUTLER: No, sir. In any case, this is too large an issue to be dealt with satisfactorily in a Parliamentary answer.

Sir J. MELLOR: Does my right hon. Friend recollect that on February 21st the Financial Secretary to the Treasury said that this matter would be under review in connexion with the Finance Bill, and will he bear in mind that a ring fence keeps capital out as well as in?

Mr BUTLER: There is not a ring fence, according to the instructions which are at present being operated, but I agree that this and many other matters will come up for discussion on the later stages of the Finance Bill.

Hansard, April 8th, 1952. Oral Answers, Col. 2498–9.

The Institute of Cost and Works Accountants

NORTH EAST REGIONAL CONFERENCE

The North East Coast and Middlesbrough and District Branches of The Institute of Cost and Works Accountants held a highly successful one-day conference at Newcastle on Saturday, April 5th, 1952. Two papers were submitted for discussion: at the morning session, 'The accountant's responsibility in planning', by Mr J. S. Knight, B.SC.(ECON.), A.C.W.A., and during the afternoon, 'Factory administrative procedures and their relation to financial control', by Mr C. E. Sutton, F.C.W.A., A.S.A.A.

The delegates – some 120 in all – were welcomed by the Deputy Lord Mayor of Newcastle upon Tyne, Councillor Robert Parker, F.R.I.C.S., F.A.I., who was also present at the luncheon, presided over by Mr R. Barras, F.C.W.A., A.A.C.C.A., President of the North East Coast Branch.

Double Taxation: Finland

The Double Taxation Convention with Finla[nd] which was signed on December 12th, 1951, was pub[lished] on April 8th as a schedule to a draft Order i[n] Council.

Distribution of German Enemy Property Act, 1949

The Board of Trade reminds those concerned that al[l] claims under the Distribution of German Enem[y] Property (No. 2) Order, 1951, as amended (with th[e] exception of those arising out of non-Reich Sterlin[g] bonds and *unenfaced* bonds of the Dawes and Youn[g] Loans) must be received by the Administrator on o[r] before May 1st, 1952. Forms of claim may b[e] obtained from the Administration of Enemy Propert[y] Department, Branch X, Theobald's Road, London WC1.

Chelmsford Chartered Accountant Students

THIRD ANNUAL DINNER

The third annual dinner of the Chelmsford Charter[ed] Accountant Students took place at *The County Hotel* [on] Wednesday, April 2nd.

Mr F. N. Wingent proposing the toast of 'The In[sti]tute of Chartered Accountants', spoke of the cl[ose] association of solicitors and accountants in busin[ess] today. The response was made by Mr P. J. Carpent[er,] F.C.A., who spoke of the main duties of the Institu[te,] namely, to the public and to its members. He said th[at] the Council was particularly interested in the fut[ure] members of the Institute – the articled clerks of today. Every effort was being made to cater for distant students and the branch societies of the student bodies were helping to a great extent.

Mr M. P. Bowman-Vaughan, representing the Eas[t] Anglian Chartered Accountant Students' Society proposed the toast of 'The Town of Chelmsford'. The Mayor of Chelmsford, Alderman A. W. Andrews replying, said it was particularly pleasing to see the older members mixing with the young students of today.

Mr J. D. Copsey, A.C.A., proposed the toast of 'The Guests', and Mr F. L. Hunt, A.I.B., president of the Institute of Bankers, Chelmsford District, replied.

The toast of 'The Chelmsford Chartered Accountant Students' was proposed by Mr N. H. Fanshawe, M.A. headmaster of the King Edward VI Grammar School Chelmsford, and the response was by one of the students, Mr R. Jarred.

Other guests included Dr K. Smith, M.SC., head o[f] the Commercial Department of the Technical College and Mr B. D. Barton, A.C.A., chairman of the Chartered Accountants Students' Society of London. Amongs[t] the qualified members present were Messrs R. Barlow A.C.A., J. C. Luckin, A.C.A., H. W. May, B.A., A.C.A. C. S. Polkinghorne, F.C.A., C. Pryke, C.A., J. C Sheldrake, A.C.A.

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CONTENTS

THE ECONOMIC SURVEY

ONE of the consequences of producing the Economic Survey[1] this year a month or more after the Budget is that it is somewhat behind the times. It is already possible to gain the first hints as to how far the Budget strategy is working out to date, but there is little sign that these hints have been seriously taken into account in writing the Survey – except for last-minute, perfunctory references designed to bring the historical picture very broadly up to date.

Like its predecessor, a great deal of the Survey's text is taken up with an account of what happened in 1951, and there is not a great deal in the opening chapters which has not been fully dissected and commented upon in public discussion already. It is not until the later sections dealing with the national income and monetary matters are reached, that any new figures and information are presented. The closing sections of each chapter deal with the outlook for the current year, but this is written up with extreme caution and is not a great deal more, in many cases, than an expansion of the CHANCELLOR'S account of the economic background to the country's current difficulties given in the Budget.

This is understandable in a way, for no Chancellor will willingly give a progress report in detail six weeks after he has delineated the year's fiscal strategy – unless the run of events has been remarkably close to expectations. Yet a survey, to justify its existence, should be mainly about the future, not the past. It might be said this year that the timing of the Survey has been unfortunate and that this has been dictated by the need to bring the Budget forward. But the same criticism could have been made last year too. The annual economic survey has become increasingly an account of recent history – so chary have governments become of looking even a few months ahead except where, as in the Budget, a longer view must be taken.

Comment of this kind is not merely captious. The cardinal feature of the Budget was the need to remove this country's external deficit and restore national solvency. The same urgent theme runs through the Economic Survey. But there is little inclination to take into account trends which have developed since the CHANCELLOR wrote his Budget speech.

Take the case of imports and exports. The Budget called for this country to play a part which would enable the sterling area as a whole to earn a surplus with the rest of the world during the second half of this year. One step which this country undertook (it was formally committed to it at the meeting of Commonwealth Finance Ministers in January) was to establish a surplus with the rest of the sterling area throughout this year. It has also planned to

[1] Economic Survey for 1952. Cmd. 8509, H.M.S.O., 1*s* 3*d*.

make import cuts of about one-tenth of the value of total imports in 1951. Finally it has taken steps to divert goods for export to the tune of £50 million more than last year.

What are the chances of these plans being realized? The task was a severe one at the beginning of March. It is even more severe at the end of April. The level of imports is disturbingly high to judge from recent import figures. So far as exports are concerned, it is clear that the Australian import cuts and similar administrative measures in Continental Europe have seriously increased the task which this country's exports have to fulfil. Even more than in March it is clear that British exports have not only to be diverted from the home market; they have also to be sold more successfully than ever before. It is not sufficient to say that the kind of exports which this country must send out in increasing quantities – such as engineering products – will sell themselves. This is at best a half-truth. The real point is that a difficult task has been made so much harder, that the hypotheses of March have been seriously challenged. The Survey takes little account of this.

A similar question arises on the home front. The Survey faithfully reproduces the CHANCELLOR's key figure of a rise of £250 million in industrial production as a means of avoiding inflation in the home market while goods are diverted to defence and export. This target will not be an easy one to attain (its adequacy, anyway, is difficult to check from unofficial sources), but the Survey suggests that it is no great problem to eke that much extra output from an economy which still has many workers in the wrong industries, which cannot re-equip its factories as extensively as the task really demands and which has placed a strong disincentive on management in the shape of excess profits levy. There are, in fact, few indications as yet that the target will be achieved. The index of production for February did not compare favourably with the level at the same time last year. It looks at present as though not only will the extra production have to be put on but, in addition, a certain amount of leeway will have to be made good.

It is possible to over-emphasize the problem. For instance, if there were a really sizeable increase in the labour force in the coal industry, if the delivery of electrical generating plant kept comfortably on the top side of an annual rate of a million kilowatts and if the steel target were maintained – if these three alone came to pass they would impart a most vital impulse both to production and to exports. A perusal of the Survey and other recent official statistics shows that these ends are not impossible of attainment. There has been a welcome increase in coalmining labour since about November of last year; electrical generating equipment has been coming off the production lines at the requisite pace; the steel target is more problematical, not least because of the unrest in the United States' steel industry from which this country hopes to take a million tons of finished steel in the current year.

Another critical factor, and one which is recognized in the Survey, is the supply of skilled labour in essential industries. There were 2,100 skilled workers registered as unemployed in the various engineering grades at the end of last year, according to the Survey, against a total of 32,100 notified unfilled vacancies. The picture for labour as a whole looked rather different. At the end of the year, the total unemployed numbered 303,000 against unfilled vacancies of 313,000 – the number of openings for men being rather larger, compared with numbers unemployed, than for women. The problem is therefore to move the skilled workers who in turn will create the jobs for less skilled labour.

This is a problem in itself, for the skilled workers are apt to be the last to move from a firm, not the first. When a company is adversely affected by shortage of materials, slow sales or an obdurate bank manager – in other words when it becomes exposed to the various dis-inflationary and controlling factors which a central government can establish to channel industrial activity in the way it wishes it to go – such a firm does not quickly release skilled men.

Labour is really the key factor. If the men can be got into the right industries so that essential production can be stepped up and if wages can be prevented from rising faster than productivity so that British goods do not price themselves out of export markets there is a strong likelihood of success in the race for solvency. The Government is being more than careful in not setting out afresh the pattern by which all this is to be done.

WHAT DO WE EXPECT FROM ECONOMISTS?

A plea for abandoning privilege as a solution to the problem of calculating profit in times of inflation

by H. A. BRISCOE, A.C.A.

ADAM SMITH pointed out that if you did away with royal patents and privileges and all restrictions on trade, leaving the natural genius of the people to operate freely, you would build up the wealth of nations, and in the succeeding 150 years this country proved that he was right.

Later, Ricardo carried things a stage further when he convinced his countrymen that if they refused to import cheap corn from abroad all they did was to put money into the pockets of the landed proprietors in the form of rent, and why should landlords be so favoured at the expense of the rest? Again, the next 100 years proved that he was right.

Unemployment or Inflation

But circumstances change, and what proved successful when peace and a belief in progress were the order of the day, did not work out so well after the First World War, but Keynes filled the gap by showing that unless business men added to the country's assets as much as the people currently wanted to save, unemployment and distress would be our lot.

Here are three great men who in their generation helped their fellow-men to grasp the problems that faced them. Today our problem is one of over-full employment and inflation, and what have economists to tell us about that? They appear to be divided in their counsels, some would tell us that inflation is good for us, even 10 per cent per annum, others assure us that this is the primrose path to destruction. Are there, then, some economic laws which, if transgressed, will bring us to ruin, or can we, if we are clever enough, avoid such a catastrophe?

Orthodox Accounting and Economic Laws

There is one economic law which I think we all agree cannot be ignored with impunity, and it is that if in real terms we consume more than we produce we shall grow poorer. Why, then, do I find myself on the side of orthodox accounting? It is plain enough that profit so calculated in times of inflation, if all spent, would gradually eat up accumulated wealth. Must we admit that those economists who advocate replacement cost accounting are merely pointing out an inexorable economic law which, if transgressed, will impoverish us all?

It is easy to agree that they do, and many company chairmen have grasped the point and have not hesitated to make use of it, for inflation creates problems for them which would be eased by applying this law. Nevertheless, the more they accuse orthodox accountants of sticking to outworn principles the more they dissociate themselves from the fight against the major evil which is inflation itself. They are half-way to believing that inflation won't matter provided we adopt those new accounting principles which will isolate business capital from its evil effects.

Economics *v.* Justice

This is not a subject about which we should come to a decision while inflation persists, for it is impossible to be sure of the purity of our motives. The controversy was first started, I believe, by Mr G. O. May, and since he advocated it before the last war, when prices had been falling for years, he at least is free from all hypocrisy. He maintained that since the effect of the new method is to reduce the disclosed profit in times of inflation and increase it in times of deflation, it would help to smooth out booms and slumps. This, to my mind, is to give accounting an ulterior motive, whereas I think it should disclose the money profit and leave the individual to work out his own salvation. Nevertheless, Mr May can be absolved from advocating replacement cost accounting as a method of making inflation work.

In so far as the new accounting method is designed for the latter purpose, it decrys something which is even more important than an economic law, and that is justice. Ricardo did not see why the people should pay a high price for bread merely to put money into the pockets of landed proprietors, and I do not see why the community, as a whole, while suffering from inflation, should be called upon, in addition, to pay for the effect of inflation on business capital.

Breaking an Economic Law

It is true that if they do not, then someone must save merely to maintain an unchanged volume of real assets, failing which those assets will decline in volume. But the business man, by facing the

necessity himself, or by borrowing the savings of others, does no more than suffer, along with the rest of the community, from the folly of inflation. Although his income for any period is the difference between his wealth at the beginning and end of that period, this does not of necessity entitle him to calculate that wealth in real terms, and the fact that calculating it in money terms transgresses an economic law may be safely ignored because saving will make up the difference.

If we wish to grow rich we must consume less real wealth than we produce, but we can exercise our thrift only in terms of money; there is no other way. If we could all invest this money directly in real assets, then the new accounting method would be fair to all who have saved, but it is not a practical proposition for all of us to invest our money this way. Therefore, the only fair way is to retain orthodox methods and concentrate on achieving an honest currency.

The Political Angle

In the end it becomes a matter of politics. If we believe that the alternatives are to devalue the currency or 'devalue' men and we choose the currency, we may believe that this is the way out, but even the Labour Party is divided on this issue. Snowden, a life-long Socialist, accepted expulsion from the party when the alternative, in his opinion, was a dishonest currency, for he believed that all would suffer, and not least the working classes, if the currency was debased; and the present split in the party has developed on the same issue.

I do not believe that individualism can survive apart from private property, and I believe that those who dally with controlled inflation will, perhaps much against their wishes, be forced to take more and more resources under their control in a vain endeavour to stave off the effects of inflation. To have private property we must have private thrift, and we shall not spread the habit of private thrift unless bonds are as stable as real wealth, which brings me back once more to my conviction that, as accountants, when our currency is unstable, we must deliberately transgress the economic law involved in the calculation of profit, in order to retain our reputation for justice and fairness, knowing that the penalty for our transgression can be avoided by extra saving and believing that the only just cure available is to establish once more an honest currency.

Privilege not Justified

If you are prepared to sacrifice the bondholder along with all those who live on fixed incomes, on the assumption that provided the business men are looked after and their assets protected the eventual welfare of all is assured, I maintain that you are wrong, for if you give special privileges to one class, to that extent you weaken co-operation between classes, and strengthen class warfare. The result of that will be yet more inflation, as those on whom you saddle the burden of providing privileges for others demand more income in order to carry that burden. I am convinced that until inflation is stopped the only thing to do is to let all sections feel its dishonest effects, and thereby be the more ready to accept the discipline necessary to re-establish the currency.

No doubt the policy which has led to the inflation and over-full employment from which we are suffering today has its roots in the teachings of Keynes, yet how he would have thundered against the stupidity of doing in recent years all those things which he advocated as necessary to cure that unemployment and deflation from which we suffered between the wars. But Keynes, like Adam Smith and Ricardo before him, put the welfare of the country before that of class, and although himself a rich man, looked to the slow euthanasia of the rentier as the cure for present evils in our economic system.

Economists' Contribution

Economists in these days have applied their minds to accounting problems and have discovered the effect of an unstable currency on the calculation of profit. That is an intelligent contribution but if they are to retain our veneration and respect they must add to intelligence, wisdom. They present us with a dilemma: how are we to marry economic profit with our main preoccupation, which is justice and fairness? If they tell us that we must create a privileged class and have no more to add, then we sense that they are not worthy successors to the great economists of the past; we delay our decision and wait and hope for more worthy advice.

For myself, I do not expect economists to plan and run our affairs for us, but to show us how free men can co-operate together to improve the standard of living of all. What they have recommended us to do so far in this matter is not my idea of co-operation, and I trust that my fellow accountants will consider long and seriously before they abandon the orthodox method of calculating profit, which I submit is the only method which is true and fair for the community as a whole.

MANAGEMENT-CONTROL ACCOUNTING — III

With Special Reference to the Brewing and Bottling Industry

by HARRY DUGDALE, A.A.C.C.A., A.C.W.A., A.M.I.I.A.

Segregation of Overheads

Overhead charges should be analysed initially under the following groups: general works, administration, selling, distribution. Account headings will be raised in each group to provide a sufficient analysis of expense. A budget is then formulated for the charge comprised in each specific account heading. Budget formulation, where possible, should be based on technical data, e.g. quantitative usage in the case of process water, coal, and electric power. Each expense is examined to determine whether it constitutes a fixed or variable or semi-variable charge.

Detailed calculations are desirable in the formulating of variable expense budgets to ensure that the 'flexing' of the budget is consonant with what should happen to that type of expense when subjected to the cost fluctuation caused by variations in production activity. With semi-variable expense budgets, the incidence of the constituent fixed and variable elements should be resolved. By this means, the variable expense may be superimposed on the basic fixed charge to provide the flexible budgetary allowances.

Cost Centres

The general works overhead budgets are, on completion, allocated to the following departments: brewery proper – comprising brewery, cooperage, and cask-washing department; bottlery; wine and spirit department; garage.

In the small to medium brewery there appears to be no point in establishing three separate cost centres for production (including racking), coopering and cask-washing. These constitute a sole cost centre so far as production overhead is concerned. But a different policy may be necessary in the case of the large brewing company with a busy cooperage department; here it may be desirable to establish the three cost centres referred to above.

Allocation of Production Overheads

The bottling processes, however, call for the undermentioned subdivision into cost centres: conditioning tanks; filling cycle of operations (i.e. bottle washing, filling, crowning and labelling); pasteurizing (but only if any one product is not pasteurized, otherwise this process can be regarded as an integral part of the filling-cycle from the costing viewpoint); filtering.

If any bottled product by-passes a process, then that process must constitute a cost centre, in order that its standard cost may be found and attributed to those products using the process.

Having planned the cost centres, it is possible to allocate the general works overhead budgets. Each charge should be considered individually, and allocated on the most factual basis, e.g. general rates – on floor space; electric power – on technical estimate; supervisory salaries – on number of employees etc.

Bottling: Standard Labour Costs

In setting standard costs for bottled beer, here again work-studies are desirable to postulate labour requirements. Moreover, technical data as to achievable bottling speeds are essential in the computation of standard labour costs per dozen. A detailed labour budget should be drawn up on similar lines to that already described in connexion with the brewery. Budgeted annual output can, at this point, be transformed into terms of notional machine-hours, based on technical data as to running speeds, thus:

Hypothetical data

Budgeted annual output: 800,000 dozen half-pints.
Standard hourly output: 400 dozen.
Annual machine-hours: 2,000 (say 50 working weeks).
Weekly machine-hours: 40.
Weekly cleaning time: 6 hours.
Weekly team labour cost: £x.
Weekly production at standard hourly output: y dozen.

Standard labour cost per dozen: $\dfrac{£x}{y \text{ dozen}}$

Standard labour cost per machine hour:

$$\frac{\text{Weekly team labour cost}}{\text{Weekly machine hours}}$$

The standard labour cost per machine-hour may then be applied on the monthly bottling production cost statements, where actual production is transformed into terms of standard machine-hours, and summarized, in conjunction with actual machine-hours and the actual wages cost, to provide the following data: standard labour cost of standard machine-hours; standard

labour cost of actual machine-hours; actual cost of actual labour-hours.

From such data it is possible to assess the *sterling incidence* of fluctuations in the standard speed of bottling, or of excess costs caused by employing labour in greater numbers, or at differing rates of pay, from those specified in the labour budget.

In similar fashion, a standard cost per machine-hour (or per dozen bottled) should be computed for the production overhead applicable to the filling cycle of operations. Standard overhead recovered in the month will then be elicited by reference to the output multiplied by the relevant rate.

Where separate cost centres are set up for (*a*) conditioning tanks, (*b*) pasteurizing, (*c*) filtering, standard costs of labour and overhead must be computed in respect thereof, (*a*) and (*c*) on a 'cost per thirty-six gallons' basis (the product being in the bulk state here); and (*b*) on a 'standard cost per machine-hour' or 'per dozen pasteurized' based on standard speeds.

Standard Costs for Ancillary Materials

Many ancillary materials are used in the bottling processes, e.g. detergents (in bottle washing), crown corks, labels, labelling gum, filter sheets, filter pulp. Standard costs will, therefore, be set for these, based on technical appraisal and including a percentage to cover the losses – consequent upon breakage – occurring in the production cycle, e.g. for lost 'crowns' etc.

Product Costs Based on Standards

Standard manufacturing costs can, at this point, be completed under product names for each grade of bottled beer. Such product costs will comprise: direct and indirect materials, production labour (under 'cost-centre' headings), and production overhead – likewise in its cost-centre incidence.

The budgeted annual output of both draught and bottled beers may now be evaluated in terms of standard manufacturing cost, whereupon, with the addition of the total amount budgeted for the year in respect of administration, selling and distribution overhead, the test can be made to establish that this 'total cost of goods delivered', when deducted from budgeted sales income, will provide the figure of planned profit. Where the latter does not emanate from the equation, then – provided the budgeted sales and the planned profit figures are realistic – an amendment must be made to the annual amounts of the overhead budgets.

Total product costs are computed by expressing total administration and selling overhead as a percentage of the total standard manufacturing cost, and applying that percentage to the standard manufacturing cost of each product; and adding a flat-rate charge for distribution costs. In this group of overhead, it is considered that the total budget for the year should be initially allocated to draught and bottled beers on the basis of the weight entailed in the expected sales quantities, taking into account the factor of containers returned empty.

Product costs should preferably reveal the overhead content in the categories of 'fixed' and 'variable'. These data are valuable in considerations of, *inter alia*, product selection, price formulation, and incentive schemes of labour remuneration.

Production Reportage

A system of reportage must be devised to provide the data from which the monthly production cost statements are compiled, viz.: data as to production quantities; production losses; materials used; machine-hours in the filling cycle of operations in the bottlery.

Monthly Cost Statements

The production cost statements should be designed to show the following:

Brewing

- Standard and actual cost of materials used;
- Cost of excess materials, i.e. the excess usage over the postulated recipe quantities;
- Cost of purchase price variations;
- Standard and actual labour costs;
- Standard production overhead recovered in the month's brewing output;
- Production activity attained.

Bottling

- Input standard cost of bulk beer bottled;
- Output standard cost of the bottled quantities;
- Yield variance (difference between the above two);
- Standard and actual labour costs in the various cost centres;
- Standard production overhead recovered in the production which has passed through the several cost centres;
- Production activity attained;
- Standard and actual costs of ancillary materials.

Budgetary Allowances linked with Activity

In operating the budgetary control of overheads, the allowances will be based on current activity of

production (in the case of production and administration overhead), and of sales (in the case of selling and distribution overhead). Actual charges for the control period (as adjusted for prepayments and accruals) versus budgetary allowances, will reveal the variations from the planned expenditures. The cost of operating the brewery and bottlery at less than the planned activity (or, conversely, the gain resulting from activity exceeding the postulated norm) should be segregated in the production overhead group of expense.

Monthly Profit and Loss Accounts based on Standard Costs

The production cost and budget statements are summarized in a monthly profit and loss account showing: actual values of beer sales; standard cost of sales; sterling incidence of variations; and net actual profit. Subsidiary profit and loss accounts will reveal the monthly results of the estate operations, the profit earned by the merchanting of wines and spirits, and the estimated profit earned by managed licensed premises. These ancillary profits, augmented by investment income, are then summarized on the main profit and loss account, to reveal the total net profit of the control period.

The initial planning of the layout of the nominal ledger should ensure the following groupings:

Balance-sheet accounts;
Materials accounts;
Accounts for brewing production charges;
Accounts for bottling production charges;
Accounts for the merchanting of wines and spirits;
Accounts involved in the estate operations;
Accounts for the respective groups of overhead.

In the case of managed licensed premises, it is desirable to use a specific nominal ledger for the relevant accounts.

The integration of the cost and financial accounts necessitates the raising in the nominal ledger of work in progress; finished goods stock; variance; and cost of sales accounts; and the devising of a monthly procedure of journal entries wherefrom these accounts are posted.

There is no doubt that management control accounting has its utility emphasized in these days of the constantly rising costs with which the brewing industry, in company with many other industries, is faced.

(Concluded.)

WEEKLY NOTES

'Personal Choice'

An attempt by the Inland Revenue to restrict initial and wear and tear allowances on a taxpayer's car, not only by reference to private use, but also by reference to what they called 'personal choice' received a signal defeat last Wednesday at the hands of Danckwerts, J., in *Kempster v. McKenzie*. The appellant, a dairy farmer, bought a new Alvis car for £1,294 and used it as to 6/7ths for farm purposes and 1/7th for private purposes.

The Revenue sought to restrict the income-tax allowances by 1/7th for private use and by a further 1/5th under the provisions of Part II, Sixth Schedule, Finance Act, 1949, on the ground that some part of the £1,294 represented 'personal choice'. The General Commissioners accepted the substance of this contention but reduced the fraction to 1/7th. Danckwerts, J., held that there was no evidence to support any restriction on the ground of personal choice and allowed the appeal.

Furniture Industry Productivity Report

The lull in the production of productivity reports has been broken by the publication last week of the findings of the team representing the British furniture industry which visited the United States last spring under the auspices of the Anglo-American Council on Productivity.[1] The general conclusion of the team is that the industry in America is motivated by the belief that maximum production is the yardstick of success and that this gives to each factory a special air of urgency and vitality. Much of the prosperity which the industry enjoys is due to efficient management, the organization of which is planned with the same detail as production processes. Full use is made of both general and private statistics and accounting techniques are employed 'not as a post-mortem but as an assessment of the present and an accurate forecast of the future'.

The team recommends management in this country clearly to define function and responsibility and to decentralize from top management right down to the work-bench; to recruit and give opportunities to young and enthusiastic executives; to set targets and compare them with results; and to welcome competitors who wish to study methods and techniques of production employed by their rivals. This last recommendation – the exchange of information – is crystallized in an American aphorism which runs:

> 'If you have a dollar and I have a dollar and we exchange dollars we both have one dollar; but if I have an idea and you have an idea and we exchange ideas, then we both have two ideas.'

[1] Copies of the report are obtainable from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, price 4*s* 6*d*, post free.

Influence of the Productivity Reports

The Anglo-American Council on Productivity has been able to collect a good deal of evidence of the value of the visits of its productivity teams to the United States in the case of two heavy industries – steel-founding and drop-forging. Spokesmen in the former industry consider that productivity has increased in the industry by 15 to 20 per cent since 1949 (when the team reported on its American visit). In drop-forging the estimate for the period starting with 1950 is about 10 per cent.

It is not claimed that these increases are entirely due to the leavening influence of the teams after their return. There is certainly not sufficient statistical evidence to give firm figures on the subject. But it is obviously more than a coincidence that there should have been such sudden increases in productivity in two fairly conservative industries dating from the time at which the teams got back to this country.

In a way the encouraging features have not a great deal to do with the estimates about higher productivity. There are clear signs, however, that the industries concerned have taken up a more progressive attitude towards making innovations, exchanging information by means of sponsored research bodies and the introduction in some cases of incentives schemes. There is no doubt something in the view, too, that these teams have been able to make an impact at a time when older boards and company managements are recruiting junior men into senior positions – men who are also junior in years and more receptive to new ideas.

It is to be hoped that there will be further studies and investigations of this kind. They are bound to be stimulating not only to those in this country and in America who have played an important part in stimulating the Council's activities (and the effect such reports will have upon Americans who like to see results could be very great); they are bound to be stimulating too to British industry, especially in those industries where teams have returned from America, have put a great deal of personal time into making the results of their visits known in their industry and who are having an uphill fight. Success of this kind might be catching.

Falling Freight Rates

During March, the latest period for which figures are available, the downward trend of freight rates was further hastened. The market has been easing ever since last October and the Chamber of Shipping's index is now well below the average for 1951 – indeed it is about half-way between the average for last year and that for the year before.

There are reported to be two main reasons for the recent trend. First, there is the reduced demand for British coal and second there is the recent round of import cuts by various European and British Commonwealth countries. A feature of Far Eastern trade has been the emergence of Japan as a competitor at reduced rates.

It is always a bold forecast to say that prices will not fall below a certain level but there seems to be some ground for believing that the index will not fall back to the line of 1950. Since then, there have been increases in bunkering costs, wages and port charges which raise the point at which it pays a tramp owner to lay up his tonnage temporarily. The average level of freights in 1950 was 80 (1948 being taken as 100) and it has been estimated that the danger point for shipping is somewhere around 110, so far as taking the index as a guide for laying-up is concerned. Since last October the index has slipped back from 190 to under 140 and at the present rate of decline it has not very far to go to reach the danger level. Account has to be taken, however, of the seasonal fall in activity towards the summer, when there is a decline in demand for grain tonnage and winter 'emergency' coal-cargo space.

Frustrated Exports and Home Supplies

Frustrated exports are likely, unfortunately, to be a much more pressing problem from now on than they have been in the past. It is becoming increasingly difficult to sell a wide range of goods abroad, either because export markets are fully stocked (as in the case of textiles) or because countries are taking the same steps as this one has done to close the gaps in the balance of payments. Australia has been the most publicized example of this. In such cases, not only consumer goods will suffer. Motor-car manufacturers, who have been finding it increasingly difficult to expand exports of late, are likely to be affected, and last week the special problems of the refrigeration industry were brought to the public's attention.

The attitude of the various industries which first come up against this problem is going to be instructive – and even more so will be the attitude of the Government, which is bound to be put under pressure to allow industries to sell higher quotas on the home market.

So far as car manufacturers are concerned, they are able in many cases to switch to commercial vehicles and defence orders to keep their raw materials' quotas (this means in effect their steel supplies). Although cars are moving more slowly in foreign markets than for years, last week saw the introduction of more stringent regulations for purchasers of new cars at home. Only 60,000 new cars will be allowed on to the home market this year. Each intending purchaser must now state how many post-war cars he has had and why he wants a new one. This is in addition to the information already required. There are also new regulations about deposits with dealers. Certain specialist, high-priced cars are excluded from the list. But it is clear that the home market is not going to have more cars just because exports are becoming difficult to move.

In the same way, the refrigeration industry – which has greatly expanded its exports since the war so that there are in effect no markets (so it is claimed)

into which the industry can now push representation for the first time – has been warned that it cannot expect its steel allocation to remain intact even though some of the markets have closed down and others are patently not there for the finding.

So far then, the official attitude has hardened against relaxing allocation conditions to make it easier to move stocks. It remains to be seen if that view can be maintained if frustrated exports lead to an unemployment problem where workers cannot readily switch from one job to another.

Britain's E.P.U. Balance in March

It is now becoming evident that reducing imports by administrative action, as this country did last November, sets off a series of economic consequences which are exceedingly difficult to evaluate in advance. When the import cuts were announced towards the close of 1951 it was expected that they would begin to operate somewhere around February. The notable improvement in this country's deficit with the European Payments Union after January seemed to give some corroboration to this view.

Since then, however, there has been no improvement worthy of the name. In March, there was in fact a slightly larger deficit than in February. It rose from £22·3 million to £22·9 million. There was a large and non-recurring liability for France to clear up with the sterling area in February, so it is possible to say that there was really a better outcome in March. But this is doing little more than putting a brave face on the statistical position. At the present time, with its quota with the Union nearly exhausted, this country is settling its debts by an 80 per cent transfer of gold. The next stage, a 100 per cent settlement in bullion, is not far off.

It is indeed possible that this country is not only benefiting from its own import cuts, but also suffering from the import cuts of others. Since the end of February, the Australian import cuts have to be taken into account, but it is going to be difficult to see just what is the net effect of this country's import restrictions on its own balance of payments position.

FINANCE AND COMMERCE

After a fair rally, stock markets have turned irregular. The impression, is that recovery in values may have gone as far as is justified by the evidence of improvement in the general economic situation. In some quarters it is, in fact, being asked whether the rally in stock markets has not gone too far and whether the Government's economic measures have gone far enough. Markets need more stimulus before a further advance can be seen.

'Fellow-workers'

This week's reprint gives the accounts of The Rugby Portland Cement Co Ltd. Having already reported the remarks of the chairman, Mr Halford W. L. Reddish, F.C.A., on the problem of replacing assets under conditions of inflation, we propose, with the accounts, to give a short impression of his message 'to his fellow-workers in the company'.

Mr Reddish reminds his fellow-workers that if

THE RUGBY PORTLAND CEMENT COMPANY LIMITED AND SUBSIDIARY COMPANIES
Consolidated Balance Sheet, December 31st, 1951

1950 £		£	£	£
	Issued Share Capital of the Parent Company			
325,000	6 per cent Cumulative Preference Shares of £1 each	325,000		
500,000	4 per cent Cumulative Redeemable Preference Shares of £1 each ..	500,000		
500,000	Ordinary Shares of 5s each	500,000		
£1,325,000				1,325,000
	Reserves and Surplus	£		
604,566	Capital Reserve	585,115		
25,000	Reserve for proposed distribution	25,000		
629,566			610,115	
	Revenue Reserves:			
100,000	General Reserve	500,000		
215,880	Reserve for future Taxation	248,529		
55,000	Reserve for dividend on the Ordinary Shares of the Parent Company (net) ..	52,500		
376,968	Profit and Loss Account ..	73,472		
			874,501	
£1,377,414				1,484,616
£2,702,414				£2,809,616

1950 £		£	£
	Fixed Assets		
3,114,965	Freehold and Leasehold Land, Buildings, Plant and Machinery, Vehicles, Roads, Sidings, Wharfs, Cottages, Loose Plant, etc., as valued at December 31st, 1937, or at cost, *less* sales ..	3,271,713	
1,100,342	*Less* Amounts written off to date	986,638	
£2,014,623			2,285,075
	Subsidiary Company not consolidated:		
—	Share Capital		33,333
	Current Assets		
308,810	Stocks and Stores	411,174	
260,501	Sundry Debtors and Prepayments ..	365,479	
294,401	Quoted Investments	300,553	
321,530	Balance at Bankers, Cash in hand and Tax Reserve Certificates	769,296	
1,185,242		1,846,502	
	Less **Current Liabilities:**		
497,451	Sundry Creditors and Accrued Charges	1,355,294	
£687,791			491,208
£2,702,414			£2,809,616

On behalf of the Board:
HALFORD W. L. REDDISH } *Directors*
R. L. EVANS

THE RUGBY PORTLAND CEMENT COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the year ended December 31st, 1951

1950 £	£		£	£
448,517		**Trading Profit of the Group** for the year ended December 31st, 1951, before charging Depreciation and Profits Tax		522,008
16,473		Income from Investments		19,348
464,990				541,356
		Less:		
	114,226	Depreciation and Obsolescence	124,114	
	57,500	Profits Tax (estimated liability for 1951)	100,000	
171,726				224,114
293,264		**Net Profit of the Group,** subject to Income Tax		317,242
		Deduct:		
140,000		Income Tax (including estimated liability for Schedule D, 1952–53)		150,000
153,264				167,242
		Deduct:		
		Dividends on Preference Shares of the Parent Company:		
	10,725	6 per cent Cumulative Preference Shares (net)	10,238	
	11,000	4 per cent Cumulative Redeemable Preference Shares (net)	10,500	
21,725				20,738
131,539		**Net Profit** for the year 1951 available for the Ordinary Shareholders		146,504
55,000		*Deduct* Dividend proposed on the Ordinary Shares of the Parent Company of 1s per share (net) ..		52,500
£76,539		Undistributed profit carried forward as shown below		£94,004

	Parent Company £	Subsidiaries £	Total £
Brought forward from previous year	245,884	131,084	376,968
Add:			
Overprovision for 1950 Dividend due to change in standard rate of Income Tax..	2,500	—	2,500
Undistributed profit for 1951 ..	63,680	30,324	94,004
	312,064	161,408	473,472
Less:			
Transferred to General Reserve	250,000	150,000	400,000
Carried forward at December 31st, 1951	£62,064	£11,408	£73,472

WHERE THE MONEY GOES

The following statement shows what happened in 1951 to each £1 received by the Group on revenue account:

	s	d
We spent:		
In paying outsiders for goods and services (e.g. coal, stores, electricity, rates, insurances and so on) ..	13	10
In paying wages, salaries and profit-sharing bonuses to our own workpeople and staff	2	9
In paying dividends on preference shares		2
and we set aside:		
As provision for depreciation of plant		9
	17	6
Out of the balance of 2s 6d:		
Income Tax and Profits Tax accounted for	1	7
The dividend to the Ordinary Shareholders took ..		4
And there was 'ploughed back' into the business ..		7
	20	0

WHO GETS THE PROFIT

The following statement shows the disposal of each £1 of the net profit of the Group:

	1947 s	d	1948 s	d	1949 s	d	1950 s	d	1951 s	d
Profits Tax and Income Tax	10	0	10	4	10	8	11	3	12	0
Preference Dividends ..	2	1	1	9	1	7	1	3	1	0
Ordinary Dividend ..	3	8	3	2	3	4	3	0	2	6
Retained in the business ..	4	3	4	9	4	5	4	6	4	6
	20	0	20	0	20	0	20	0	20	0

they all had to bring their own tools or the money to buy them, they would each have to find about £8,000. Fortunately, the tools have been provided by the company's shareholders of whom there are nearly six times as many as employees and whose average holding, reckoning their shares at present market value, is about £600. Mr Reddish also emphasizes that institutional investors, such as the insurance companies, invest policy-holders' premiums in British industry.

Of profits, he says a 'lot of nonsense has been talked.' Profits are 'the real and only bulwark behind our wages and salaries'. No profits and – 'it can only be a comparatively short time before you and I are out.'

Dividends also are vitally important, especially in this company 'because the rate of dividend determines the amount of your profit-sharing bonus, which, as you know, is calculated by assuming that you hold a steadily increasing number of ordinary shares.'

Times Furnishing

Without comment in the directors' report or the chairman's statement, an item of £158,000 for 'loans by directors' comes into the balance sheet of The Times Furnishing (Holdings) Ltd. From the face of the balance sheet, it looks as if this is one of the results of the deflation of bank credit which is part of the Government's policy for dealing with inflation and the sterling crisis.

Last year, the company had £589,862 in bank loans and overdrafts secured by mortgages on freehold and leasehold properties and floating charges on other assets This year, the figure is down to £342,373. The loans from the directors, shown in conjunction with the loans from bankers, bridge the gap.

The company is particularly concerned with hire-purchase, for furnishings through its subsidiary, The Times Furnishing Co Ltd and for clothes through its tailoring subsidiary, Willerby & Co Ltd. Trading profits for 1951 were £719,163 against £588,025 and at the close of the year, unpaid instalments under hire-purchase agreements totalled £1,745,298 against £1,532,161.

Non-Recurring Profit

The profit and loss account of Huddersfield Fine Worsteds Ltd for the year to December 31st, 1951, opens on the credit side with 'surplus from trading account (including non-recurring profits estimated by the directors at £40,000), £165,113'. In the comparison column, an amount of £146,915 is shown for the year to December 31st, 1950.

It is not evident from the accounts as presented whether the 1950 figure included any non-recurring amount. In such circumstances, we feel that it is preferable to draw the clear distinction between the surplus from trading and the non-recurring profit by making them two separate items. Further, it contributes to the informativeness of the accounts if the manner in which the non-recurring profit arose is described.

It is the sort of question which a shareholder might

properly ask at an annual meeting and expect to receive a proper reply and it is the sort of information therefore which should be given in the accounts.

Important Decision

A transfer of £105,600, provided for taxation but no longer required, at the credit of Bairds & Dalmellington Ltd for the year to December 31st, 1951, reflects a decision of vital importance to nationalized colliery companies.

Following the decision of the Special Commissioners in a test case selected by the Mining Association in agreement with the Inland Revenue, it has been decided that a colliery concern whose only activities are in connexion with the prosecution of its claims to compensation under the 1946 Act is not carrying on a trade or business within the meaning of Section 19 (2) of the Finance Act, 1937, and does not bear the attributes of an investment or property holding company, and that such a company, therefore, is not liable to profits tax. Bairds & Dalmellington Ltd comes within that category.

Meantime, the company still awaits the final settlement for its nationalized assets. A global sum of £21,837,000 was awarded to Scotland for the colliery assets taken over but owing to the large number of claimants and the great diversity of interest, it has not been found possible to arrive at an agreement for the allocation of the amount among the various undertakings.

Money Market

Applications for Treasury bills on April 18th totalled £316,625,000 nearly £20 million higher than the previous week. At the same time the market lowered its bid to £99 8*s* 2*d* with the result that the allotment basis was reduced to 45 per cent against 62 per cent the previous week. The average rate was £2 7*s* 3·27*d* per cent and this week's offer is £200 million.

THE RUGBY PORTLAND CEMENT COMPANY LIMITED

Balance Sheet December 31st, 1951

1950 £		£	Authorized £	Issued and fully paid £
	Share Capital			
325,000	6 per cent Cumulative Preference Shares of £1 each		500,000	325,000
500,000	4 per cent Cumulative Redeemable Preference Shares of £1 each ..		1,000,000	500,000
500,000	Ordinary Shares of 5s each		1,000,000	500,000
£1,325,000			£2,500,000	1,325,000
	Reserves and Surplus	£		
577,413	Capital Reserve	552,413		
25,000	Reserve for proposed distribution	25,000		
602,413			577,413	
	Revenue Reserves:			
100,000	General Reserve	350,000		
175,444	Reserve for future Taxation	200,844		
55,000	Reserve for dividend on the Ordinary Shares (net) ..	52,500		
245,884	Profit and Loss Account ..	62,064		
			665,408	
£1,178,741				1,242,821
	On behalf of the Board: HALFORD W. L. REDDISH, R. L. EVANS } Directors			
£2,503,741				£2,567,821

1950 £		£	£
	Fixed Assets		
2,524,948	Freehold and Leasehold Land, Buildings, Plant and Machinery, Vehicles, Roads, Sidings, Wharfs, Cottages, Loose Plant, etc., as valued at December 31st, 1937, or at cost, *less* sales ..	2,893,846	
762,322	*Less* Amounts written off to date ..	863,354	
£1,762,626			2,030,492
	Subsidiary Companies		
90,000	Share Capital	123,333	
307,893	Current Accounts	319,309	
£397,893			442,642
	Current Assets		
252,851	Stocks and Stores	304,878	
226,888	Sundry Debtors and Prepayments ..	305,323	
312,391	Balance at Bankers, Cash in hand and Tax Reserve Certificates	761,709	
792,130		1,371,910	
	Less **Current Liabilities:**		
448,908	Sundry Creditors and Accrued Charges	1,277,223	
£343,222			94,687
£2,503,741			£2,567,821

FIVE-YEAR RECORD

		1947 £		1948 £		1949 £		1950 £		1951 £
Share Capital		1,325,000		1,325,000		1,325,000		1,325,000		1,325,000
Reserves		1,041,938		1,188,300		1,243,769		1,377,414		1,484,616
		£2,366,938		£2,513,300		£2,568,769		£2,702,414		£2,809,616
Fixed Assets		1,763,773		1,770,202		2,025,001		2,014,623		2,318,408
Net Current Assets		603,165		743,098		543,768		687,791		491,208
		£2,366,938		£2,513,300		£2,568,769		£2,702,414		£2,809,616
Net Profit before Taxation		188,192		261,061		286,630		350,764		417,242
Taxation		93,865		135,000		153,000		197,500		250,000
		94,327		126,061		133,630		153,264		167,242
	£		£		£		£		£	
Preference Dividends	20,109		22,962		22,962		21,725		20,738	
Ordinary Dividends	34,375		41,250		48,125		52,500		52,500	
		54,484		64,212		71,087		74,225		73,238
Undistributed Profit		£39,843		£61,849		£62,543		£79,039		£94,004

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Rising Prices due to Inflation

SIR, – I find it very difficult to understand why a form of accounting which does not provide a reasonable measure of profit or loss, continues to be supported by men of undoubted ability.

It has been suggested more than once, that the demand for some kind of adjustment to the present basis of accounting, to allow for variations in the purchasing power of the monetary unit, is due primarily to the high level of taxation, and to claims for increased wage rates. Surely, the demand for adjustment arises purely out of a desire for realistic profit and loss statements. We all know that the 'profit' figure provided by 'historical cost' accounting is not the true profit figure – that is, the figure which, if distributed, would still leave the productive capacity of the business at the same level as it was at the commencement of the accounting period.

Sir Harold Howitt says, during the course of his address under the above head, delivered on April 1st at a luncheon of the members of The Incorporated Accountants' London and District Society, and printed in your issue dated April 12th, 1952,

> 'It is easy to advocate a change, and it may be popular to do so, but it is much more difficult to define it.'

In my opinion, the difficulties are exaggerated. We want such an adjustment to the historical basis of accounting as will ensure that profit and loss statements exhibit reasonable and realistic figures – figures which mean what they say.

In time of inflation, the obvious way appears to me to be, to charge an amount in the financial accounts equivalent to the measure of the loss in purchasing power of the monetary unit over the period of the accounts, calculated on the capital employed in the business. In time of deflation, the reverse procedure will apply. An account will be raised under the head 'Sterling purchasing power adjustment account', and this will appear in the balance sheet under 'capital, reserves and surplus'. The resultant profit or loss will be realistic, and the balance sheet difficulties are overcome. Complicated computations of replacement costs are avoided.

Sir Harold says:

> 'It would be difficult to resist the argument that all members of the community were to be asked to suffer from rising prices, except the equity owner.'

In my view, business profit and loss can only be measured ultimately in terms of goods and services. We must not confuse profit and loss measurement with the effect of rising prices on holders of monetary units. The two problems are quite distinct.

To Sir Harold's question:

> 'Would it be an effective answer to say that at all costs industry must be maintained?'

I would reply without hesitation – yes. Upon our industries depend our survival.

Yours faithfully,
R. N. BURTON, A.C.A., F.R.ECON.S.

Prestwich, Manchester.

[Sir Harold Howitt writes: Mr Burton would apparently deal with this problem in yet another manner. It would involve agreement as to what is the capital employed in a business and as to what is the index of inflation or deflation over the period in question. These are both contentious issues and it is doubtful whether any uniform interpretation of them would be appropriate for application to businesses as a whole, with their varying structures. It is not clear whether the adjustment is proposed for taxation purposes also. I make these comments not to be destructive but in the hope of enlisting Mr Burton's help, and indeed, that of others.]

Companies Act, 1948: Meaning of 'Majority'

SIR, – I should be glad if you would settle the following point of dispute which arose at a recent residential course for Chartered Intermediate students at Burton Manor College.

Section 141 of the Companies Act, 1948, states:

> 'A resolution shall be an extraordinary resolution when it has been passed by a majority of not less than three-fourths of such members as, being entitled to do so, vote. . . .'

Does this ruling require a minimum of 75 per cent or 87·5 per cent to vote in favour of such a resolution? The question was put to several lecturers and had previously been put to other members of the legal and accountancy professions. All seemed agreed that in practice 75 per cent was generally adopted as the correct figure. Members of the legal profession did point out, however, that in their opinion the figure of 87·5 per cent is the correct one, particularly in view of the fact that the words 'a majority' would otherwise be superfluous.

Could you throw some light on what was really meant when the Act was drafted?

Yours faithfully,
Manchester, 8. P. BENSON.

[The primary meaning of 'majority' is the 'greater part' and it is this meaning that the word has in Section 141 (1) and its legislative forebears. It may well be superfluous here – so are the words 'where proxies are allowed' in the same subsection. Apart from the universal practice, the meaning of 'by a majority' is made clear by the proviso to subsection (2) where it is used again in the following phrase: '. . . if it is agreed *by a majority* in number of the members. . . .' – Editor.]

Income Tax Act, 1952

SIR, – Further to my letter which appeared in your issue of April 5th, I must apologize to you and your readers. I now discover, on reading as far as Section 528 of the Act, that subsection (3) of that section retains the 1936–37 time limit for assessments 'where any form of fraud or wilful default has been committed'. It is not clear to me why this time limit is not incorporated in Section 47 itself or in the relative sur-tax Section 229, but there it is. Like the lady who trumped her partner's ace, the draftsman doubtless had his reasons!

Yours faithfully,

Glasgow. A. G. McBAIN.

Excess Profits Levy

SIR, – I am at a loss to understand the reasoning for the rules contained in the Ninth Schedule to the Finance Bill in so far as they direct that half the profits of an accounting period shall be taken in arriving at the undistributed profits, and I should be glad to invite your readers' opinions thereon.

One wonders whether it is an attempt to assess the approximate net profits after deduction of income-tax and profits tax (other than profits tax on distributions which are covered by paragraph 3 (*c*) of the General Rule). Alternatively, it might be thought that in taking half the profits this is the same as taking the profits accrued to the mid-date of an accounting period, but if this is so it is difficult to understand why only half the profits of accounting periods prior to the chargeable accounting period, i.e. where the whole period has elapsed, should be treated in this way.

In either case it seems that the references in the financial Press and in clause 33 (3) to a 10 per cent addition to standard profits in respect of undistributed profits are misleading. This might be a convenient way of expressing the calculation, but surely the effect is to take 5 per cent only of the undistributed profits. Do your readers agree?

Yours faithfully,

A.C.A.

[Income-tax plus profits tax at 2½ per cent amounts to one-half of the profits and this no doubt is the reason for the inclusion of only half of the profit in computing 'undistributions'. – Editor.]

SIR, – The Chancellor's advisors when suggesting the years 1947, 1948 and 1949 as basic years of profit, which in fact they were not, have conveniently avoided the factor of devaluation of the paper pound on September 20th, 1949.

In terms of Canadian dollars (Canadian dollars are taken as the currency which has been inflated least of all since that date), the paper pound was valued at \$4·02 during those years, but now in April 1952 is only worth \$2·75 and while nobody can tell what it will be worth in December 1952, the chances are that it will be worth still less.

Taken on today's official exchange rates, the loss in purchasing power of the paper pound in terms of Canadian dollars since September 20th, 1949, is \$·317. The excess profits levy is therefore not based on 1947–49 profit basis but on 31·7 per cent less.

I wonder how many people realize this?

Yours truly,

London, EC3. J. M. JESSIMAN.

[We referred to this in the leading article in our issue dated March 22nd, 1952, at page 293. – Editor.]

Base Stock Method of Valuation

SIR, – I, too, had hoped that this matter would stimulate greater interest and I welcomed your leader of March 8th.

In these days of scarcities and quotas some firms, importing from abroad, must buy seasonally and hold stocks for a period of up to one year. When the ratio of stock to sales is so high and when first cost is the major factor (as with merchant houses) an amount, which may well exceed the net profit, must necessarily be absorbed to meet the increase in cost of new season's supplies. The company must then pay tax on so-called profits although it has suffered an effective loss, and this can create serious hardship.

The adoption of LIFO would only provide a temporary alleviation since, as stocks are cleared from time to time, the 'first in' is eventually charged out, resulting in a higher book profit and reversing the previous advantage. Subsequent new stocks must then be brought in at current value.

The base stock method in theory seems to be a possible means of eliminating from the profit and loss account the effect of a fluctuating price level on trading stocks, but in practice the volume of stocks will vary with trading conditions and the practical application of the principle would appear to be considerably complicated thereby. I would welcome further information on this aspect.

An alternative solution would be to grant each year an allowance (or make a charge) for tax purposes of the increase (or decrease) in value of closing stocks held similar to those on hand at the beginning of the year. This becomes a formidable problem, however, when related to a company carrying a wide range of fluctuating stocks, varying in quantity, quality and kind.

Yours faithfully,

Singapore. T. G. COTTERELL.

Stock Cost Determination

SIR, – I have read your article on this subject in your issue of March 8th (page 238), as well as 'Stocktaker's' letter on page 250, together with the letter on page 359 of April 5th issue regarding LIFO and FIFO, and the base stock system of stock valuation, but I consider that for English industry and wholesale business, the Jessiman formula

> 'Stock to be taken at cost or market price, whichever is lower, during the period of these accounts, including the opening valuation'.

is eminently suitable to accountancy in Great Britain and produces what is desirable, namely a conservative

balance sheet, taking into consideration slumps and booms and inflation at the same time.

You will realize that the opening price of one year's price valuation would be the closing price valuation of the previous year.

We in England should not have to go to America for ideas in accountancy in order to account for inflation. But I am sure you will agree with me that it is vital to British industry that some definite step towards embodying inflation into accountancy should be taken immediately.

I am, dear Sir,
Yours truly,
JOHN HALL.

London, EC3. JOHN HALL (TIMBER) LTD.

Estate: National Savings Certificates

SIR, – I am dealing with an estate, part of which consists of National Savings certificates, and it has been argued that the difference between the amount at which these certificates have been valued for estate duty purposes, and the amount at which they were realized, is not income but capital. I wonder if any of your readers know of any authority which supports this view?

Yours faithfully,
LACONIA.

Managing Director's Commission

SIR, – I refer to 'Puzzled Calculator's' letter in your issue of April 12th.

The problem seems to hinge on the intention of the parties. Five per cent commission on profits after charging such commission is merely another way of saying that the commission is 1/21st of profits. Similarly, 10 per cent commission on the same basis is 1/11th of profits.

The intention therefore appears to be that a commission of 1/21st will be payable on profits, with an additional commission of 1/11th – 1/21st = 10/231sts on profits in excess of £10,000. On this assumption the commission payable on £15,000 profits is:

	£
1/21st of £15,000	714
10/231sts of £15,000 – £10,000 ..	216
	£930

Calculation (*b*) therefore appears to be correct.

The draftsman of the service agreement could have achieved almost the same result in a much more straightforward manner, e.g. by providing for a commission of $4\frac{4}{5}$ per cent on profits with an additional commission of, say, $4\frac{1}{2}$ per cent on profits in excess of £10,000.

Yours faithfully,
T. S. M. GARD.

Blyth, Notts.

SIR, – 'Puzzled Calculator's' two calculations are not both wrong – the first, giving the managing director's commission as £909, is obviously correct. As 'Puzzled Calculator' cannot reason clearly on the problem, I think the best way to convince him is to offer the following proof:

	£
Net profits before charging commission ..	15,000
Commission, as stated above	909
Therefore net profits after charging commission	£14,091

We now have the figure on which, according to the service agreement, commission is to be calculated. The calculation of the commission is as follows:

	£
Five per cent on the first £10,000	500
Ten per cent on the excess over £10,000 (i.e. on £4,091)	409
Total commission (as stated above)	£909

Yours faithfully,
LEONARD HUGHES.

Boston, Lincs.

SIR, – The calculation of 'Puzzled Calculator', when using his basis (*a*) gives the correct amount of £909.

The following alternative calculation may interest him as it avoids completely the confusion which appears to arise by using the normal methods of calculating commission on profits after charging such commission.

Let C represent the total commission payable, consistent with the service agreement.

Therefore the amount of net profit is, £(15,000 – C)

The net profit consists of £10,000 plus £(5,000 – C)

Therefore, C equals £500 plus $£(500 - \frac{C}{10})$,

i.e. $\frac{£10,000}{11}$

i.e. £909.

Note – The above method and basis (*a*) give a net profit of £14,091, – by direct application of the service agreement, the above result is proved.

Basis (*b*) gives a net profit of £14,069 and direct application of the service agreement gives a result which is not equal to £(15,000 – 14,069).

Yours faithfully,
MAURICE A. WOOD.

Smarden, Kent.

SIR, – I think the calculation should proceed as under:

(1) Let £x equal such an amount of profit as after deduction of commission at 5 per cent gives a net profit of £10,000, i.e.

$$£x - £\frac{5}{100}x = £10,000$$

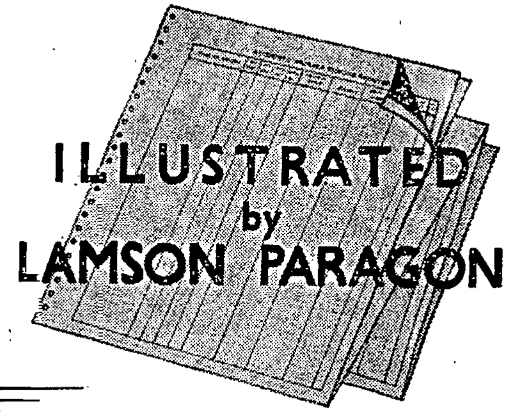
Therefore x = £10,526

Therefore commission (first part) = £526.

(2) £15,000 – £10,526 = £4,474, which is equivalent to 110 per cent of the net amount remaining after charging commission at 10 per cent (such net amount being 100/110ths × £4,474 = £4,067) giving a figure of £407 as commission (second part), i.e. £4,474 – £4,067.

The total commission payable is, therefore, £526 + £407 = £933.

Yours faithfully,
R. S.



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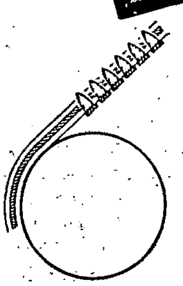

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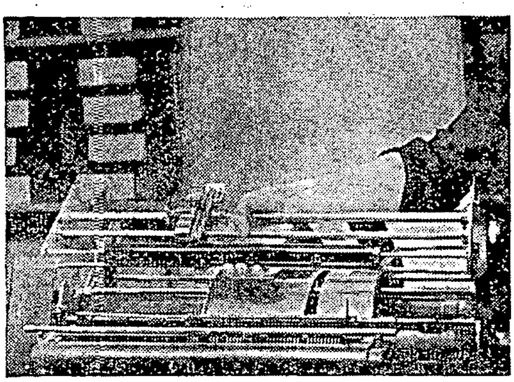

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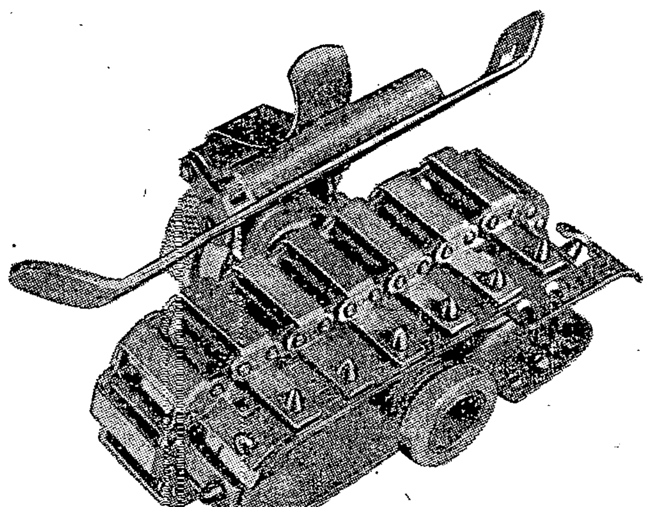

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'Puzzled Calculator's' letter included the following statement:

'A service agreement provides for a commission to the managing director of a company at 5 per cent on the first £10,000 of net profit and at 10 per cent on any net profit in excess of £10,000. The agreement states that for the purposes of calculating the amount of the commission, the net profits shall be the amount remaining after charging the commission.'

Subject to the precise terms of the agreement there appears to be a clear ambiguity: namely, does the special definition of 'net profits' apply only to the total profit or does it also apply to '£10,000 of net profit' and 'net profit in excess of £10,000'. – Editor.]

Professional Education, Training and Experience

SIR, – During the past eighteen months there have been certain motions debated by the London Chartered Accountant Students' Society, which would appear to confirm the view that the present method and system of professional education and training could be improved.

As the result of my various educational activities, I decided to submit a memorandum on this matter to the London District Society. The committee feel that my memorandum is too fundamental for them to consider.

Anyone interested can borrow a copy of my memorandum from the Librarian at The Institute of Chartered Accountants, or from myself.

If there is a wide measure of interest, as I believe to be the case, public discussion should surely precede the submission of such a proposition to the Council, because it is only by such an exchange of ideas that sound propositions can emerge.

Yours faithfully,

London, W1. ANCRUM F. EVANS.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

REPORT OF THE COUNCIL FOR 1951

Report of the Council to be presented to the seventy-first annual meeting of the Institute, to be held on Wednesday, May 7th, 1952, at 2 p.m., at the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2.[1]

His Late Majesty King George VI

1. At their meeting on February 6th, 1952, the members of the Council were informed of the death on that day of His Majesty King George VI. The following resolutions were passed:

'(i) That the President, Vice-President and Council of The Institute of Chartered Accountants in England and Wales, on behalf of themselves and the Fellows and Associates of the Institute desire humbly and respectfully to convey to Her Majesty Queen Elizabeth II, Her Majesty the Queen Mother, Her Majesty Queen Mary and the other members of the Royal Family, their profound grief and sympathy in the irreparable loss which they and the nation have sustained by the death of His Most Gracious Majesty, King George VI. They also desire to assure Her Majesty of their loyal devotion to her person and throne and pray that Her Majesty may be long spared to rule in peace and happiness over her loyal and devoted people.

'(ii) That a copy of the above resolution under seal be forwarded to the Secretary of State for Home Affairs.'

President and Vice-President

2. At the meeting of the Council held on Wednesday, June 6th, 1951, Mr Charles William Boyce, C.B.E., F.C.A., Bradford, was elected President for the ensuing year in succession to Mr Harold Garton Ash, O.B.E., M.C., F.C.A., London. Mr Thomas Buston Robson, M.B.E., M.A., F.C.A., London, was elected Vice-President.

Council and Committee Meetings

3. During the year 1951 the Council met on 13 occasions, on 11 of which both special and ordinary meetings were held. The following committees held 179 meetings:

Applications	11	General Purposes	11
Disciplinary	3	Investigation	13
District Societies	2	Library	6
Examination	5	Parliamentary and Law	8
Finance	11	Planning	4
Special and sub-committees	105		

Attendances at meetings of the Council and of committees were in total 88 per cent of the possible attendances.

Constitution of the Council

4. Four members not in practice continue to serve on the Council and it is the intention of the Council to elect a further member not in practice when the next appropriate casual vacancy occurs and provided that there is a suitable member who is willing and able to serve.

Planning Committee

5. At its meeting on August 1st, 1951, the Council decided that the Planning Committee had served the purpose for which it was established in 1945 and accordingly the committee was dissolved. The Council recorded that it was impressed by the considerable volume of work which had been carried out by the Planning Committee which was much to be congratulated on its record. The Planning Committee was appointed in February 1945 to deal with the provision of refresher courses, the whole question of the future training of articled clerks and the post-war development of the Institute and, to this end, to co-ordinate the work of certain then existing committees or sub-committees which were accordingly either dissolved or incorporated into the Planning Committee. Among the major matters which the committee dealt with were: the post-war refresher courses and the book of refresher course notes; the Council's statements on the training of articled clerks and later the report on 'Education and Training for Membership', arising out of the report of the Carr-Saunders Committee; the concessions to ex-service men in relation to service under articles and examinations; the introduction of the booklet 'General Information and Syllabus of Examina-

[1] The appendices and references to them in the report are not reproduced. – Editor.

tions'; the introduction of the summer courses, now dealt with by a Summer Course Committee; and the production of the 'Members' Handbook'.

General Purposes Sub-Committee (Non-practising Members)

6. A sub-committee has been set up known as the General Purposes Sub-Committee (Non-practising Members), whose function is to advise on matters relating to the interests of non-practising members of the Institute. The sub-committee consists of the four (later to be five) non-practising members of the Council, together with three members of the Council in practice, two of whom are the Chairman and Vice-Chairman of the General Purposes Committee.

Death of a Member of the Council

7. The Council records with regret the death of Mr Graham Adam, M.C., F.C.A., Newcastle upon Tyne, a member of the Council since 1944 and Vice-Chairman of the Applications Committee since 1950.

New Member of the Council

8. The vacancy on the Council caused by the death reported above has been filled by the appointment of Mr Robert Pearson Winter, M.C., T.D., F.C.A., Newcastle upon Tyne, and in accordance with Bye-law 13 a resolution confirming the appointment will be submitted to the annual meeting.

Retirement and Election of Members of the Council

9. The following members of the Council retiring under Bye-law 5 are eligible for re-election. Their names having been submitted to the district societies concerned and no other nominations having been made, the Council recommends their re-election:

Mr Percy Frederick Carpenter, F.C.A., London.
Mr Donald Victor House, F.C.A., London.
Sir Harold Gibson Howitt, G.B.E., D.S.O., M.C., F.C.A., London.
Mr Percy Montague Rees, M.C., F.C.A., London.
Mr Lawrence William Robson, F.C.A., London.
Mr George Forrest Saunders, F.C.A., Liverpool.
Mr Gilbert David Shepherd, M.B.E., F.C.A., Cardiff.
Sir Nicholas Edwin Waterhouse, K.B.E., M.A., F.C.A., London.
Mr Robert Pearson Winter, M.C., T.D., F.C.A., Newcastle upon Tyne.

Hospitality

10. *President's dinner.* In accordance with custom, the President's dinner was held on the evening of Tuesday, May 1st, 1951, the day preceding the annual meeting of the Institute. The names of those present were reported in *The Accountant* of May 5th, 1951.

11. *Special luncheon.* The President and members of the Council entertained Lord Hurcomb, G.C.B., K.B.E., Chairman of the British Transport Commission, Sir Edward Reid, O.B.E., Director of Baring Brothers & Co Ltd, Mr P. F. Brundage, C.P.A., Past-President of the American Institute of Accountants, Mr Geoffrey Crowther, Editor of *The Economist*, and Mr C. P. C. Smith, M.A., Master of Haileybury and Imperial Service College, at a luncheon held in the Oak Hall of the Institute on Tuesday, July 17th, 1951.

Membership Changes

12. During the year 1951, 988 new members were admitted and 6 former members became members again through revocation of their exclusion. Under clause 22 of the supplemental Royal Charter 6 members were excluded for non-payment of subscriptions and 2 members were excluded for discreditable conduct. Nineteen members resigned and the deaths of 148 members were reported.

13. An application to be admitted an associate under clause 5 of the supplemental Royal Charter was refused by the Council at its meeting on May 2nd, 1951.

14. The number of members of the Institute on January 1st, 1952, was 16,079 against 15,260 on January 1st, 1951, being an increase of 819. The variations are shown by the following statement:

Members	Members on Jan. 1st, 1951	Additions in 1951: Admissions	Readmissions, etc.	Changes	Total	Deductions in 1951: Deaths	Resignations	Exclusions	Changes	Total Deductions	Members on Jan. 1st, 1952
Fellows in practice ..	3199	—	1	*a.b.* 246	3446	46	—	2	*c.d.* 55	103	3343
Fellows not in practice ..	372	—	—	*c.e.* 49	421	18	2	—	*a.f.g.* 12	32	389
Fellows not in England or Wales ..	161	—	1	*d.g.h.* 30	192	2	—	1	*e.* 4	7	185
Associates in practice ..	2815	12	—	*k.l.* 370	3197	24	1	2	*b.i.j.* 287	314	2883
Associates not in practice	7370	970	3	*f.j.m.* 94	8437	43	15	3	*k.n.* 554	615	7822
Associates not in England or Wales ..	1343	6	1	*i.n.* 193	1543	15	1	—	*h.l.m.* 70	86	1457
	15260	988	6	982	17236	148	19	8	982	1157	16079

(*a*) 10 Fellows not in practice became fellows in practice.
(*b*) 236 Associates in practice became fellows in practice.
(*c*) 45 Fellows in practice became fellows not in practice.
(*d*) 10 Fellows in practice became fellows not in England or Wales.
(*e*) 4 Fellows not in England or Wales became fellows not in practice.
(*f*) 1 Fellow not in practice became an associate not in practice.
(*g*) 1 Fellow not in practice became a fellow not in England or Wales.
(*h*) 19 Associates not in England or Wales became fellows not in England or Wales.
(*i*) 7 Associates in practice became associates not in England or Wales.
(*j*) 44 Associates in practice became associates not in practice.
(*k*) 368 Associates not in practice became associates in practice.
(*l*) 2 Associates not in England or Wales became associates in practice.
(*m*) 49 Associates not in England or Wales became associates not in practice.
(*n*) 186 Associates not in practice became associates not in England or Wales.

Fellowship

15. During the year 1951, 255 associates were elected to fellowship. One fellow became an associate under clause 7 of the supplemental Royal Charter.

Business Notepaper: Practice and Fellowship Applications

16. At its meeting on February 6th, 1952, the Council decided that in future any application for a certificate of practice and any application for election to fellowship shall be accompanied by a specimen of the member's business notepaper; and that the notes which appear on form C6 (fellowship application) and the notes which accompany form B46 (certificate of practice application) be amended accordingly.

Reduced Subscriptions: Retired Members

17. The subscriptions of 347 retired members were reduced to £1 1s 0d for the year 1951 after consideration of applications under Bye-law 43.

Subscriptions of Members engaged on National Service

18. Bye-law 45 permits the Council in certain circumstances to remit or refund the annual subscription of any member serving in Her Majesty's Forces or otherwise engaged in whole-time national service during war or any period of national emergency. The effect of the deferment arrangements for articled clerks is that many new members will undertake their compulsory national service after completing their service under articles and passing the Final examination. The Council has decided not to use the power

conferred by Bye-law 45 to remit the subscriptions of such members during their national service.

Disciplinary Action

19. Disciplinary action has been taken since the last report in the following cases as a result of formal complaints preferred by the Investigation Committee to the Disciplinary Committee. The findings and decisions of the Disciplinary Committee, or where applicable the Appeal Committee, have been or will be published in *The Accountant*.

(*a*) *Admonishment*

A member was admonished, having been found guilty of an act or default discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that he accepted nomination of his firm as auditors of a limited company without first communicating with the then auditors of that company.

A member was admonished, having been found guilty of an act or acts discreditable to a public accountant or a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that he had circulated or caused or allowed to be circulated letters in terms capable of construction as advertising his business or soliciting new business to companies, firms or persons with whom his firm had no association in matters of a professional character and in particular to a named limited company for whom his firm did not act in a professional capacity and with whom it had no professional relationship.

A member (Mr X.) was admonished, having been found guilty of an act discreditable to a public accountant within the meaning of clause 20 (3) of the Royal Charter of 1880 (replaced by clause 21 of the supplemental Royal Charter of 1948) in that he entered into an arrangement with a member of the Institute (Mr Y., now deceased) which resulted in a clerk who was articled to Mr Y. failing to serve throughout his term of service as an articled clerk to Mr Y. on his principal's business of public accountant.

Two members were admonished for having failed to pay the subscription payable in respect of the year 1951 for four months after the same had become due.

(*b*) *Reprimand*

A member (a partner of the member referred to in the second case under (*a*) above) was reprimanded, having been found guilty of an act or acts discreditable to a public accountant or a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that he had circulated or caused or allowed to be circulated letters in terms capable of construction as advertising his business or soliciting new business to companies, firms or persons with whom his firm had no association in matters of a professional character and in particular to a named limited company for whom his firm did not act in a professional capacity and with whom it had no professional relationship.

A member was reprimanded, having been found guilty of an act discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that he procured or permitted the insertion in the *London Telephone Directory* issued in February 1951 of an entry of an advertising character relating to his firm.

A member was reprimanded for having failed to pay the subscription payable in respect of the year 1951 for four months after the same had become due.

(*c*) *Suspension*

A member was suspended from membership for a period of six months, having been found (i) to have been convicted of defaults in filing returns under Section 342 of the Companies Act, 1948, as liquidator of a limited company and furthermore having been found to have been convicted of failure to comply with Section 299 of the Companies Act, 1948, as liquidator of the same company and (ii) to have been guilty of a default discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that (*a*) having undertaken by letter dated April 2nd, 1950, addressed to the Secretary of the Institute to take definite and prompt steps to put in order all outstanding matters relating to the liquidation of the company, he failed to implement such undertaking and (*b*) having further undertaken by letter dated December 3rd, 1950, addressed to the Secretary of the Institute to take immediate steps to put all matters in order relating to the said liquidation, he failed to implement such undertaking and (*c*) he failed to reply to a letter dated January 4th, 1951, addressed to him on the said matter by the Secretary of the Institute.

(*d*) *Exclusion*

A member was excluded from membership, having been found guilty of a default discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that (i) having acted in a professional capacity in relation to the affairs of a certain client he refused or neglected to provide any information in relation to and necessary for the settlement of such affairs during the period from April 21st, 1950, to January 8th, 1951, despite the repeated demands and requests of a firm of chartered accountants then acting for the said client and (ii) he had failed to reply to three letters addressed to him on the said matter by the Secretary of the Institute.

A member was excluded from membership, having been found guilty of acts or defaults discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that (i) while excluded from membership of the Institute he signed a balance sheet using the designation chartered accountant and (ii) having acted in a professional capacity in relation to the affairs of a farmer, he refused or neglected, despite repeated requests, to answer letters or return books and records to enable accounts to be produced.

A member was excluded from membership, having been found guilty of acts discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that (i) during the period between March 1950 and October 1951 he misappropriated the sum of approximately £2,500 being part of the funds of the firm of which he was at the time a partner and (ii) during the same period he made false entries in the books of the firm with a view to defrauding and/or deceiving his partners.

A member was excluded from membership, having been found guilty of an act or default discreditable to a member within the meaning of clause 21 (3) of the supplemental Royal Charter in that (i) despite repeated requests from the executors of a deceased person he failed to complete and send to the said executors within a reasonable time, or at all, the accounts to the date of the death of the said person; (ii) despite repeated requests from his clients, the executors of the deceased person, and from the accountants to whom the said executors entrusted the preparation of accounts relating to the estate of the deceased, he failed to hand over to the accountants the books of account relating to the estate; (iii) he failed to reply to three letters from the Secretary of the Institute.

Six members were excluded from membership for having failed to pay the subscription payable in respect of the year 1951 for four months after the same had become due.

20. A resolution of the Council in November 1942, excluding a member for non-payment of his annual subscription, was rescinded by the Council on August 1st, 1951, and the member's name was expunged from the minutes, notice of his death in June 1942 having been received in July 1951.

Professional Conduct: Statements by the Council

21. The following statement was approved by the Council on June 6th, 1951, and published in *The Accountant* of June 16th, 1951:

'CHANGES IN APPOINTMENT AS
AUDITOR OR PROFESSIONAL ACCOUNTANT

'It is the duty of any member of the Institute before accepting nomination for appointment as auditor or professional accountant to a company, partnership or private individual to communicate with the previous auditor or professional accountant.

'The Council indicated in its statement of April 1937 that such communication should be made with a view to ascertaining the circumstances in which a change of auditor was proposed. Some members appear to have assumed that if the person proposed to be appointed believes himself to be aware of the circumstances in which the change is proposed, then he is relieved from the duty of communicating; the Council therefore wishes to make it clear that the duty to communicate exists in every case. It is essential that the member who is proposed for appointment, whether as auditor or as professional accountant, shall have an opportunity of knowing all the reasons for the change and this requirement can only be fulfilled by direct communication with the holder of the existing appointment.

'Apart from any question of professional courtesy it is important that the legitimate interests of the public and the independence of the existing auditor or professional accountant should be safeguarded and that a communication should take place even though the change is a matter wholly within the discretion of the appointor. The duty to communicate is not confined to cases where the previous appointment was held by a member of the Institute.

'Compliance with the duty to communicate will not necessarily preclude the Disciplinary Committee from considering any complaint which may be made under clause 21 (3) of the supplemental Royal Charter.

'This statement supersedes those of 1937 and 1943 which are reproduced on page 76 of the "Members' Handbook".

'Where a member is invited to undertake special professional work for a company, partnership or individual, such work being in addition to that already being carried out by the client's auditor or professional accountant and where no question of replacement arises, it is normally desirable, as a matter of professional courtesy, for the member invited to undertake the special work to notify the client's auditor or professional accountant unless the client advances satisfactory reasons for the member not so doing.'

22. The following statement was approved by the Council on November 7th, 1951, and published in *The Accountant* of November 17th, 1951:

'BRITISH INSTITUTE OF MANAGEMENT:
REGISTER OF MANAGEMENT AND
INDUSTRIAL CONSULTANTS

'The Council has had under consideration whether it is appropriate for a member of the Institute to have his name or that of any firm or company of which he may be a partner or director included in a Register of Management and Industrial Consultants which is maintained by the British Institute of Management for the benefit of its members. This register is open only to those individuals, firms or companies whose business is limited to consultancy work, and practising accountants whose business is not so limited are not eligible for inclusion in it. The Council has informed the British Institute of Management that it has, after detailed consideration, decided that permission cannot be given to a member of The Institute of Chartered Accountants in England and Wales for the name of any firm or company of which such a member is a partner or director to be included in the Register of Management and Industrial Consultants which is maintained by the British Institute of Management if that firm or company undertakes in the course of its duties any work which comes within the field of public accountancy.'

Honours, Decorations and Awards

23. The Council congratulates the following members who have received honours, decorations and awards:

K.C.V.O.

S. A. White, M.V.O., A.C.A.

Knighthood

L. H. H. Lowe, B.A., F.C.A., E. J. Venner, A.C.A.

C.B.E.

H. Arnold, M.A., A.C.A., G. M. Bottome, B.A., F.C.A., J. F. Drake, A.C.A., Group Capt. R. L. M. Hall, O.B.E., A.D.C., A.C.A., T. R. W. B. Miller, A.C.A., G. P. Norton, D.S.O., T.D., M.A., D.L., F.C.A.

O.B.E.

C. V. Bailey, A.C.A., M. A. Carson, A.C.A., N. Charlton, M.B.E., T.D., B.A., A.C.A., R. J. Freeman, F.C.A., F. Heppenstall, A.C.A., T. H. Nicholson, F.C.A., C. F. Pagnamenta, A.C.A.

M.B.E.

C. B. Erlebach, A.C.A., P. J. Parratt, A.C.A., J. R. Riddell, F.C.A., F. H. Thornton, F.C.A., H. Tweedale, A.C.A.

M.C.

E. B. Spencer, A.C.A.

M.M.

G. R. Bramall, A.C.A.

T.D.

C. Ainsworth, A.C.A., A. H. C. Bangham, A.C.A., J. H. Black, B.A., A.C.A., P. H. Blandy, A.C.A., A. G. Cameron, A.C.A., F. W. Carder, Junr., A.C.A., A. Child, B.COM., A.C.A., L. Chrimes, M.B.E., A.C.A., J. H. M. Clark, A.C.A., F. V. Denton, A.C.A., F. C. de Paula, A.C.A., R. Fawcett, M.B.E., B.A., A.C.A., D. B. Gardiner, A.C.A., J. A. Gordon, M.A., A.C.A., A. S. Groves, A.C.A., F. Hackwood, A.C.A., G. E. Hill, A.C.A., T. Hughes, A.C.A., D. J. Kean, A.C.A., S. V. Lancaster, F.C.A., S. Lukes, A.C.A., E. H. Morland, A.C.A., L. J. Payton, A.C.A., S. J. Saunders, A.C.A., N. A. Smith, B.A., A.C.A., R. C. Smith, M.B.E., A.C.A., P. R. N. Stewart, M.C., A.C.A., S. K. Stott, M.B.E., A.C.A., G. A. Vetch, A.C.A., P. R. W. Whyman, A.C.A.

Deaths of Members

24. In addition to the death of Mr Graham Adam, M.C., F.C.A., recorded in paragraph 7, the Council records with regret the deaths of two former members of the Council:

Mr Henry Fosbrooke Holloway, F.C.A., Nottingham, a member of the Council from 1942 to 1950.

Sir Henry Thomas McAuliffe, F.C.A., Eastbourne, a member of the Council from 1926 to 1938 and Chairman of the Parliamentary and Law Committee from 1932 to 1936.

25. The Council also records with regret that the deaths of the following other members have been reported up to the date of preparing this report.[1]

National Service: Reservation

26. In paragraphs 23 and 24 of the last report the Council reported correspondence with the Minister of Labour and National Service on the question of reservation of qualified accountants in public practice and the qualified members of their staffs, in the event of an emergency. At the last annual meeting the then President made the following further statement:

'Paragraphs 23 and 24 of the report set out the action taken by the Institute in connexion with the call-up of Z reservists. Had this call-up only entailed some fourteen

[1] These names are not reproduced. – Editor.

days' training in the year, no particular point would have arisen. When, however, it became evident from the statement made in the House of Commons on March 5th last by the Parliamentary Secretary to the Ministry of Labour and National Service that the members called for training had been screened by the Ministry and that they would be liable for immediate recall for active service in the event of an emergency, the position became entirely different. The matter was at once taken up with the Ministry and representatives of the professional bodies met the Ministry officials on April 19th. Briefly, the outcome of the meeting is this: Class Z and similar reservists are being recalled because there are not yet sufficient post-1948 national service men to provide the services with the trained men they require. In screening Z reservists for fifteen days' training consideration has been given to certain categories of occupations and employments expected to be of vital importance in the *initial* stages of an emergency. Accountancy is not one of these categories. Prima facie, therefore, members who are recalled for fifteen days will be regarded as available for immediate recall in the event of an emergency.

'There will however be arrangements for consideration to be given, at the time of an emergency, to applications in appropriate cases by individual reservists for postponement of recall because of exceptional domestic or business hardship; moreover, applications for deferment of recall, or for release would be considered at the time of an emergency, on the merits of the importance of the work on which the reservist was engaged and in relation to the priorities at the time.

'After the call-up of Z and equivalent reservists and the mobilization of the Territorial Army in an emergency, it is contemplated that call-up would then proceed by age groups and would be governed by a schedule of reserved occupations similar to that used at the beginning of the last war. A provisional schedule, which includes items relating to accountants and their staffs, is in existence and will be discussed at the appropriate time with representatives of both sides of industry and the professional bodies concerned. In the light of the points put forward by the accountancy representatives (and later confirmed, in writing) the entries relating to accountants in the provisional schedule of reserved occupations will be reconsidered by the Ministry.

'As soon as possible the accountancy bodies will be given in confidence greater detail of the provisional plans for allocating men to the services in the event of an emergency; and at an appropriate time the arrangements will be discussed with the accountancy bodies.'

The Minister is not at present able to give details of the basis on which reservation arrangements would be made in the event of an emergency.

Examinations

27. *Results.* Examinations were held in May and November 1951, the Preliminary examinations in London and Manchester and the Intermediate and Final examinations in London, Birmingham, Leeds, Liverpool and Manchester. The following were the results:

	Passed	Failed	Total No. of Candidates	*Comparative figures 1950*
Preliminary	139	326	465	*540*
Intermediate	870	1,088	1,958	*2,351*
Final	1,032	1,157	2,189	*2,035*
Total	2,041	2,571	4,612	*4,926*

28. *Publication of results.* Owing to the large number of candidates sitting for the examinations, it was again necessary to defer the publication of the examination results until the first Wednesday in the August or February following the examinations. Candidates were however notified individually of their success or failure at the earliest possible time before the official date of publication. This practice will again be followed in 1952.

29. *Centres.* While the number of candidates remains large, the Liverpool centre, established in 1950 as a temporary measure, will continue to be used in addition to London, Birmingham, Leeds and Manchester. The Preliminary examination will be held in London and Manchester only.

30. *Advertising.* As the expenditure was not considered to be justifiable, the Council has ceased to advertise the dates of forthcoming examinations in the national Press. The dates continue to be advertised in *The Accountant*, in addition to being stated in each half-yearly edition of the booklet 'General Information and Syllabus of Examinations'.

Prizes and Certificates of Merit

31. Candidates were placed in order of merit and awarded prizes and certificates of merit, as shown below.[1]

Publication of Examination Results of Individual Candidates

32. At its meeting on March 5th, 1952, the Council decided to issue the following statement, which was published in *The Accountant* of March 15th, 1952:

> 'In view of certain instances to which its attention has been drawn, the Council wishes to emphasize to members that notices in the Press relating to the examination success of an individual candidate should not contain any element of undesirable publicity through the inclusion of the name and address of the firm of the principal, photographs and other unnecessary details.'

Unsuccessful Examination Candidates

33. Following the procedure adopted after the November 1950 examination, the Secretary sent a letter to the principal of each articled clerk who was graded as a 'bad failure' in the Intermediate examinations in 1951, giving the opinion of the Moderators that:

> 'A candidate who has been a "bad failure" has little chance of passing the examination at a subsequent attempt unless the bad failure can be attributed to exceptional circumstances such as illness, totally inadequate preparation or complete lack of effort.'

The fact that only 9 of the 155 candidates who were classified as bad failures in the May 1950 Intermediate examination, have succeeded in passing the Intermediate examination at subsequent attempts is considered by the Council to confirm the opinion of the Moderators referred to above.

34. The Council considers that it is the duty of a principal to see the failure notice of any of his articled clerks who has been unsuccessful in an examination of the Institute.

Exemption from the Preliminary Examination

35. *Bye-law 78.* During the year 1951, certificates of exemption from the Preliminary examination were issued to 1,150 persons who had passed exempting examinations compared with 1,242 in the previous year.

36. *Amalgamations of performances at exempting examinations.* The Council has given further consideration to the wording of its regulations under which exemption from the Preliminary examination under Bye-law 78 (*b*) may be obtained by performance at a school certificate or higher school certificate or matriculation examination, in combination with passes obtained at a general certificate of education examination. The decisions of the Council have been made solely for the purpose of making the existing regulations more clear on certain points of detail.

37. *Bye-law 79.* During the year 1951, exemption from the Preliminary examination was granted to 17 persons, not being under 30 years of age, who made applications under Bye-law 79, which relates to persons who at the

[1] The names of the candidates are not reproduced. – Editor.

date of application have been for ten years continuously in employment as clerks to members in practice. One application was refused.

Articles of Clerkship

38. *Registrations.* During the year 1951 the number of articles of clerkship registered was 1,380, compared with 1,450 in 1950 (not, as stated in the last report, 1,440). The total registrations in the five years to December 31st, 1951, were 7,257.

39. *Prescribed clauses.* Five applications were received and granted during the year 1951 for permission to waive the inclusion of some of the provisions prescribed under Bye-law 51 for inclusion in all articles.

Bye-laws 61 and 85 (b)

40. Persons who have been for ten years continuously in employment as clerks to members in practice (or have had experience which in the opinion of the Council is equivalent to such employment) may apply for a reduction in the period of service under articles (Bye-law 61) and exemption from the Intermediate examination (Bye-law 85 (*b*)). Applicants were in all cases interviewed by a sub-committee unless they had already been interviewed in connexion with a previous application under Bye-law 79 (see paragraph 37). The applications considered during the year 1951 under these bye-laws were as follows:

Bye-law 61: 27 applications of which 25 were granted.

Bye-law 85 (b): 25 applications of which 19 were granted.

The Training of Articled Clerks

41. *Attendance at students' society meetings.* The Council has been much disturbed to learn that attendances at lectures and other functions held by students' societies have been very small in certain areas. The Council wishes to impress upon all principals the need to encourage their articled clerks to attend as many as possible of the lectures, debates, demonstrations and discussions arranged by students' societies. These activities are considered to be specially valuable in broadening the knowledge of articled clerks, as well as assisting them from the point of view of their examinations and their practical work. In this connexion attention is drawn to a pamphlet on 'The Place of the Students' Societies in the Education of Articled Clerks' which the Council approved at its meeting on August 1st, 1951, for issue for the guidance of the committees of the students' societies and the information of the committees of the district societies. The attention of all principals is drawn particularly to paragraphs 9 and 10 of the pamphlet.

42. *Compulsory membership of students' societies.* As a matter of routine, on the report of a students' society, the Secretary makes inquiries in cases where an articled clerk has, in contravention of the clause in his articles of clerkship, failed to become a member of a students' society. The Council has instructed the Secretary, in the event of no satisfaction being obtained from his inquiries, to inform the articled clerk and his principal that the articles are regarded as ineffective for all purposes of the Royal Charters and bye-laws in view of the failure of the articled clerk to join a students' society as required by the terms of his articles. The Secretary has been obliged to make such inquiries in a number of cases, in none of which it has yet been necessary to inform the parties that the articles are ineffective. The Council regrets that in these cases the principal had not taken sufficient interest to ensure that the requirements of the articles were complied with by himself and his articled clerk.

43. *Forms of application for admission to membership.* At its meeting on May 2nd, 1951, the Council approved a revised form of certificate to be required from a principal in support of an application for admission to membership. (The revised form has since been reproduced in the booklet 'General Information and Syllabus of Examinations'.) The Council also approved a leaflet, in the following terms, to be sent to each principal when articles are registered:

'Although it will be some years before the clerk with whom you have just entered into articles is in a position to present himself for the Final examination, the Council considers it desirable to draw your attention now to the nature of the certificate which you will be required to give in support of an application for admission to membership if your articled clerk well and faithfully serves his clerkship and passes the Final examination:

(*a*) The principal is required to certify that throughout the period of the articles he was a member of the Institute in practice as a public accountant such practice being his main occupation; that the articled clerk served as a clerk under articles with him; and that he considers the clerk a fit and proper person to be admitted an associate of the Institute.

(*b*) The certificate must indicate the full scope and nature of the duties performed by the articled clerk, in order to enable the Council to be satisfied that the applicant's experience during service was such as to fit him to undertake the responsibilities of a member of the Institute; it must also state as precisely as possible the kinds of work on which the clerk has been engaged (such as accountancy, auditing, taxation, insolvency) the types of business concerned (such as sole traders, partnerships, limited companies), and the level of seniority at which the work has been carried out.

(*c*) The certificate must also include an analysis showing how much of the total period has been spent in the various ways permissible under Bye-law 58.

'The provisions of Bye-law 58, together with recommendations of the Council and other information concerning conditions of service under articles, are shown in the 'Members' Handbook' and also in the booklet 'General Information and Syllabus of Examinations'.

'The Council desires to remind you, in connexion with the above-mentioned certificate, that you have undertaken that to the best of your ability and power you will, either personally or through your partner or partners or your senior assistants, engage your articled clerk on such work and afford him such opportunities and experience as are necessary for the purpose of enabling him to acquire the art and knowledge of a chartered accountant in practice as a public accountant.'

44. *Bye-law 58 (c).* Applications were received during the year 1951 in twelve cases for approval under Bye-law 58 (*c*) for an articled clerk to spend periods not amounting to more than six months in all in an industrial, commercial or other suitable organization. Approval was given in nine cases.

45. *Carr-Saunders report.* The Council's report on 'Education and Training for Membership' (referred to in paragraph 47 of the last report) was distributed widely in April 1951 to persons and asscoiations concerned with education, in view of the nature of the recommendations made by the Carr-Saunders Committee in its report on education for commerce (see paragraph 48 of the report for 1949). Representatives of the Council had a discussion on July 18th, 1951, with the Under-Secretary for Further Education and other officers of the Ministry of Education. The meeting took place in the most friendly atmosphere and, after reviewing the Institute's method of training articled clerks, it was clearly understood that the Ministry had no intention of interfering in any way with the profession and would not consider any move which might affect the interests of the Institute without full prior discussion with the Institute.

46. *County colleges.* Since the report for 1947 there have been no developments regarding the position of articled clerks between the ages of 16 and 18 years under the county college provisions of the Education Act, 1944, as no regulations have yet been made for compulsory attendance at such colleges.

The Universities and the Accountancy Profession

47. *Exemptions granted under Bye-law 85 (a).* During the year 1951, exemption from the Intermediate examination was granted to 45 articled clerks who had graduated after taking one of the degree courses approved for the purpose of Bye-law 62.

48. *Evening classes: withdrawal of approval.* At its meeting on November 7th, 1951, the Council decided that the B.Sc.(Econ.) degree course of the University of London shall cease to be an approved degree course for the purpose of Bye-law 62 where it is taken by evening classes, this withdrawal to operate for students who commence their degree course after September 30th, 1952.

49. *Approved degree courses: revised basis.* At its meeting on November 7th, 1951, the Council approved, for inclusion in the booklet of the Joint Standing Committee of the Universities and the Accountancy Profession, a revised statement showing the underlying basis of all degree courses approved by the joint standing committee. The revised statement, which had been settled by the joint standing committee, is as follows:

> 'The approved degree courses consist of the following three main subjects:
>
> | | |
> |---|---|
> | Accountancy (including costing, auditing and taxation) .. .. | 3 sessions |
> | Economics .. .. | 3 sessions |
> | Law (including principles of English law, law of contract commercial law and executorship) .. .. | 3 sessions |
>
> In addition to these three main subjects, the professional bodies and the universities have agreed that it is desirable that the degree course shall if possible include subsidiary subjects such as a modern foreign language and some study of government. In view of the heavy demands made upon a student's time by the main subjects, it has been agreed to leave such additions to the course to the discretion of the universities.'

50. *Conditions for exemption under Bye-law 85 (a).* For the purpose of an application for exemption from the Intermediate examination under Bye-law 85 (*a*), a certificate in the prescribed form is required from the registrar of the university concerned, as evidence that the applicant took an approved degree course. At its meeting on February 6th, 1952, the Council decided to send the following statement to the universities and university colleges participating in the scheme and to all members of the joint standing committee:

> 'In the booklet issued by the Joint Standing Committee of the Universities and the Accountancy Profession it is made clear that the approved degree courses include the three main subjects of accountancy, economics and law each of which must be read for three sessions. In order to be eligible to apply under Bye-law 85 (*a*) for exemption from the Intermediate examination of The Institute of Chartered Accountants in England and Wales, it is necessary for an applicant to have graduated after taking a degree course the conditions of which were in accordance with the course approved by the joint standing committee. The Council of the Institute has recently had to consider certain cases where a graduate has been exempted by a university from the first year of the degree course or from reading one of the main subjects during the first year. Whilst it is appreciated that such exemptions are, for degree purposes, entirely a matter for the universities concerned, it is nevertheless fundamental to the scheme that, for the purpose of exemption from the Institute's Intermediate examination, the candidate shall have taken the full three years' course approved by the joint standing committee. In these circumstances the Council wishes it to be understood that it will not entertain an application for exemption from the Institute's Intermediate examination where a candidate has been exempted from any part of the approved degree course.
>
> 'The Council has also had to consider certain cases where an applicant for exemption from the Institute's Intermediate examination had failed in his degree examination at the first attempt but had subsequently graduated, either by remaining at the university for a further year and re-sitting the degree examination or by studying as an external student after the completion of his three years' course and re-sitting for the subject(s) in which he failed. The Council has decided that exemption from the Institute's Intermediate examination will not normally be granted unless the degree examination was passed at the first attempt. As this matter is not referred to in the joint standing committee's booklet or in the booklets issued by the Institute, the Council has decided that this rule shall not apply to persons who commence or have commenced their degree courses before October 1st, 1952.'

Articled Clerks: National Service

51. *Bye-law 63.* The Council has continued to grant concessions and exemptions under Bye-law 63, in regard to service under articles and examinations, to persons who were born before January 1st, 1929, and have been affected by national service. Persons who remain eligible for such concessions have diminished to a very small number and during the year 1951 the following applications were acceded to:

11 exemptions from the Preliminary examination;
4 exemptions from the Intermediate examination;
28 reductions in the period of service under articles.

In addition, however, a considerable number of clerks whose articles expired during national service were required, on application for admission to membership after passing the Final examination, to submit evidence of not less than three instead of five years' service with practising members.

52. *Concession to unsuccessful candidates.* It is unlikely that there remain any candidates who fall within the rules governing the concession under which an unsuccessful candidate in the Intermediate or the Final examination could be permitted at the next examination to sit for specified subjects only. This concession applied only to persons born before January 1st, 1929, who had been unable, for at least a year since entering articles, to continue their studies by reason of whole-time national service. One candidate in the May 1951 Final examination sat as a concession candidate and passed. None of the candidates in the examinations in November 1951 sat as a concession candidate.

53. *Further Education and Training Scheme.* The effect of the regulations terminating the Further Education and Training Scheme is that few persons can now be eligible to make new applications to the Ministry of Labour and National Service for financial assistance during the period of training for admission to membership. Since the last report the Institute has been in correspondence with the Ministry of Labour and National Service on only 10 new applications. These, however, bring the total to 5,360 and many of the earlier applications have been the subject of further correspondence during the year in regard to second and, in appropriate cases, third attempts at the examinations.

54. *Deferment of national service.* The Ministry of Labour and National Service made a further change in the regulations regarding deferment of national service. The regulations affected are items (*b*) and (*c*) of those recorded on page 56 of the report for 1949. Those two items are now replaced by the following regulation which should be read in conjunction with the remainder of the regulations:

> 'A man may be granted deferment to remain in full-time attendance at school or similar educational establishment if he wishes to sit or re-sit an external examination. A student so deferred may be allowed to complete the school year in which he sits the examination but such deferment can in no case extend beyond the end of the school year in which he became 19.'

The change was reported in *The Accountant* of July 14th, 1951, and the amended regulations appear in the current

edition of the booklet 'General Information and Syllabus of Examinations'.

55. *Articled clerks not taking deferment.* If, notwithstanding the deferment arrangements, an articled clerk born on or after January 1st, 1929, proceeds to compulsory national service (otherwise than by recall or re-engagement) during his term of service under articles, the period of national service does not count as service under articles for the purposes of the Royal Charters. He is required to complete under articles the normal full period of service with a practising member. Full information as to the position of the parties and the particulars to be registered with the Institute are given in the booklet 'General Information and Syllabus of Examinations'.

The Times and *The Accountant* Concessional Subscription Rates for Students

56. Following the recent increase to 4*d* in the price of *The Times*, the concessional rate at which this paper may be obtained by articled clerks has been increased to 3*d* per copy. An articled clerk wishing to take advantage of this arrangement should make application to his students' society.

57. The concessional price at which articled clerks may now obtain *The Accountant* is 1*s* per copy, the appropriate annual subscription being £2 12*s* 0*d* post free. Application forms are obtainable from the publishers, Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

Students' Societies

58. *New societies.* During the year 1951, further progress was made in the formation of students' societies. The following new societies were established:

(*a*) The Chartered Accountant Students' Society of North Lincolnshire.

(*b*) The North Yorkshire and South Durham Chartered Accountant Students' Society.

59. *The Chartered Accountant Students' Society of London.* It was with the greatest regret that the Council found it necessary to inform the Chartered Accountant Students' Society of London that it is no longer possible, owing to the increasing need of the Institute for accommodation, to continue to allow that society to have the use of certain rooms in the Institute building. Increasing membership of the Institute and its expanding activities and the consequent increase in Institute staff, together with the need to provide additional space for the expansion of the library, made this decision an unfortunate necessity. As far as possible arrangements will, however, be made to permit articled clerks to study in the Institute building during the few weeks immediately prior to the Institute examinations. The students' society will continue to have the use of the Oak Hall for lectures when this room is available.

60. *Union of Chartered Accountant Students' Societies.* The third annual meeting between officers and students forming a liaison sub-committee of the Union of Chartered Accountant Students' Societies and the President and certain members of the Council took place on March 11th, 1952. As usual, this meeting provided an opportunity for a most useful discussion on several matters of interest and concern to articled clerks.

Summer Courses

61. *1951.* The fifth summer course, held at Christ Church, Oxford, from September 9th to 14th, 1951, was attended by 164 members of whom 110 were in practice, 22 were engaged in industrial and other occupations and 32 were engaged with public accountants. Four addresses were delivered as follows: 'An accountant's working papers', by Mr S. M. Duncan, F.C.A.; 'Some reflections on industrial profits', by Mr H. P. Finn, A.C.A.; 'Auditing', by Mr W. H. Lawson, C.B.E., B.A., F.C.A.; and 'Public accountancy in Australia', by Mr H. W. Chancellor, F.C.A.(AUST.). The full text of these four addresses, together with the programme for the course, was subsequently reprinted in the form of a booklet for which an order form was sent to all members on November 19th, 1951. The price of the booklet is 5*s*, post free.

62. *1952.* A sixth summer course, on similar lines, is to be held from September 12th to 17th, 1952, again at Christ Church, Oxford. Arrangements have been made for four addresses to be delivered as follows: 'Mechanized accounting and auditing procedure', jointly by Mr H. O. H. Coulson, F.C.A. (auditing procedure), and Mr F. C. de Paula, T.D., A.C.A. (mechanized accounting); 'The office organization of an accountant in practice', by Mr R. W. Foad, A.C.A.; 'Receivership', by Mr R. G. Leach, C.B.E., F.C.A.; and 'Taxation, with particular reference to depreciation', by Mr J. E. Talbot, A.C.A. An announcement, giving preliminary details and inviting members to obtain application forms, was issued to all members on February 14th, 1952. The application list closed on March 31st, 1952, and vacancies are being allotted by ballot.

63. *Future courses.* In arranging courses in future years it is intended that, so far as practicable, the dates should alternate between July and September.

Autumnal Meetings

64. *1951.* The twentieth autumnal meeting of the Institute was held at Torquay on October 11th, 12th and 13th, 1951. This enjoyable and successful meeting was arranged by the Bristol and West of England Society of Chartered Accountants in conjunction with their colleagues of the Exeter Branch. Papers were presented by Mr T. A. Hamilton Baynes, M.A., F.C.A., and by Mr W. G. Campbell, B.A., F.C.A., on 'The valuation of holdings in private limited companies', Mr Baynes dealing with the subject with special reference to estate duty problems and Mr Campbell from the more general aspect. Mr E. G. Turner, M.C., F.C.A., presented a paper entitled 'The effects of taxation on industry and the individual'. The papers, which had been circulated in advance, were introduced shortly by their authors, after which those present were able to take part in a discussion. Mr Derek du Pré kindly acted as Honorary Public Relations Officer in connexion with the meeting. A booklet recording the proceedings and containing a reprint of the papers was sent to all members of the Institute on November 19th, 1951. A limited number of copies of the booklet are available and may be obtained from the offices of the Institute on payment of 5*s* per copy post free. The proceedings were reported by *The Accountant* in the issue of October 20th, 1951.

65. *1953.* The Council has accepted with much appreciation an invitation from the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants to hold an autumnal meeting in 1953 at Scarborough. It is expected that the meeting will take place during the week ending October 10th, 1953.

Meetings of Accountancy Bodies Abroad

66. *Atlantic City, New Jersey.* Mr G. O. May, F.C.A., of New York, together with Mr Alan S. MacIver, the Secretary of the Institute, represented the Institute at the sixty-fourth annual meeting of the American Institute of Accountants held from October 6th to 10th, 1951, at Atlantic City.

67. *Amsterdam.* Mr D. A. Clarke, LL.B., F.C.A., represented the Institute at the Accountants Yearday of the Nederlands Instituut van Accountants held on October 6th, 1951, at Amsterdam.

68. *Düsseldorf.* Mr E. Bartholomew, A.C.A., and Mr W. Rendell, M.A., A.C.A., represented the Institute at the professional conference of the Institut der Wirtschaftsprüfer held on October 4th and 5th, 1951, at Düsseldorf.

Visitors at Meetings of the Council

69. Since the last report the Council has been pleased to welcome at its meetings the following accountants who were paying visits to the United Kingdom:

Mr K. Lamont Smith, M.A., F.C.A., Past-President of the Transvaal Society of Accountants.

Mr H. W. Chancellor, F.C.A.(AUST.), and Mr G. Sutherland Smith, F.C.A.(AUST.), both Vice-Presidents of the Institute of Chartered Accountants in Australia.
Mr G. P. Kapadia, F.C.A.(INDIA), President of the Institute of Chartered Accountants of India.
Mr E. W. Savage, F.C.A.(AUST.), member of the Queensland State Council of the Institute of Chartered Accountants in Australia.

Sixth International Congress on Accounting

70. The sponsoring bodies have announced that the business sessions of the Sixth International Congress on Accounting will be held in the Royal Festival Hall instead of in the halls of the Royal Horticultural Society. Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., has been appointed President of the congress. Two of the introductory papers are to be presented by Mr F. R. M. de Paula, C.B.E., F.C.A., and Mr G. F. Saunders, F.C.A., dealing respectively with 'The accountant in industry' and 'The accountant in practice'. Full particulars of the congress, which is to take place in the week beginning June 16th, 1952, were issued to all members of the Institute on December 11th, 1951.

District Societies

71. *Annual conference.* The annual discussion between representatives of the district societies and of the Council took place on November 8th, 1951. The Council attaches particular importance to this all-day meeting which provides an opportunity for the free exchange of views on current problems and matters of interest, most of which are raised by the district societies.

72. *President's visits.* The President and Secretary have, as usual, paid visits to district societies on the occasion of their annual dinners and have, whenever possible, taken the opportunity of visiting students' societies at the same time. Other members of the Council have represented the Institute at dinners and other functions held by branch societies and students' societies.

73. *Branches.* The Council is pleased to record the formation of two new branch societies of district societies. The Derby branch of the Nottingham Society of Chartered Accountants was established in July 1951, and the Bolton branch of the Manchester Society of Chartered Accountants was formed in October 1951.

Company Law

74. *Auditors.* At its meeting on April 4th, 1951, the Council decided to submit for consideration by the Board of Trade a second interim memorandum in which suggestions were made on a number of matters regarding the Companies Act, 1948, and the Ninth Schedule thereto. (The Council's first interim memorandum was reproduced at page 59 of the report for 1949.)

75. *Employee of auditor acting as an officer of the company.* At its meeting on March 5th, 1952, the Council decided to issue a further joint opinion of counsel in amplification and replacement of the opinion given in paragraph 23 of the Institute's booklet on The Companies Act, 1947.

Taxation

76. *Royal Commission on the Taxation of Profits and Income.* At its meeting on June 6th, 1951, the Council approved for submission to the Royal Commission a memorandum on Part A of the notice issued by the Royal Commission; and at its meeting on March 5th, 1952, the Council approved a memorandum on Part B for submission to the Royal Commission. The complete memorandum is too large for convenient reproduction in the Appendix to this report, but any member wishing to obtain a copy may do so, without charge, on application to the offices of the Institute. The Council has recorded its appreciation of the work of all concerned with the preparation of the memorandum. Oral evidence on behalf of the Council has not yet been given.

77. *Finance Bill, 1951.* A memorandum on the Finance Bill (now Finance Act, 1951) was submitted to the Chancellor of the Exchequer on May 18th, 1951, and discussed with representatives of the Board of Inland Revenue on May 30th, 1951, when the Institute was represented by Mr T. B. Robson, M.B.E., M.A., F.C.A., Mr W. H. Lawson, C.B.E., F.C.A., and Mr D. A. Clarke, LL.B., F.C.A.

78. *Taxation treatment of provisions for retirement.* The Council has not yet been asked to send witnesses to give oral evidence to the Tucker Committee, to which a memorandum was submitted on March 14th, 1951 (page 55 of the last report).

Accounting Principles

79. No new recommendations in the series of recommendations on accounting principles have been issued since the last report.

The Allocation of Expense

80. A pamphlet of 'Notes on the Allocation of Expense' was issued to all members on November 19th, 1951.

Taxation and Research Committee

81. *Meetings.* During the year 1951, the Taxation and Research Committee held 5 meetings, its four standing sub-committees held 13 meetings, and 15 special sub-committees held 92 meetings, making a total of 110 meetings for the committee and 19 sub-committees. (The comparative total for 1950 was 71 meetings.) Most major matters were also considered by the regional taxation and research committees of the district societies.

82. *Activities.* The Taxation and Research Committee has been responsible for the major drafting work in connexion with the memoranda referred to in paragraphs 76 (Royal Commission on the Taxation of Profits and Income), 77 (Finance Bill) and 80 ('Notes on the Allocation of Expense'). Other matters are still under consideration. The Council wishes to record in particular its great appreciation of the work of those members who formed the drafting sub-committee for the preparation of the memorandum for the Royal Commission. Meetings of members of this sub-committee occupied about 175 hours, apart from the time required before and after meetings to read and consider documents, to prepare drafts and to travel, in some cases long distances, to and from each meeting. All members of the drafting sub-committee are busy practitioners and they have willingly borne a tremendous additional burden for the Institute.

Dealings in and Notices Relating to Securities: Prevention of Fraud (Investments) Act, 1939

83. The Council decided at its meeting on April 4th, 1951, to issue a statement in amplification and replacement of its statement of August 1945, drawing the attention of members to certain important provisions of the Prevention of Fraud (Investments) Act, 1939.

Accountants' Certificates for Quotas and Similar Matters

84. The following letter from the Secretary of the Institute was published in *The Accountant* of August 11th, 1951. It shows the views of the Council in cases where an accountant may have difficulty in connexion with a certificate which he is asked to sign on forms such as applications for allocations of raw materials and similar matters.

'ACCOUNTANTS' CERTIFICATES

'I refer to the letter from Mr Stafford Honey on the above matter which appeared in your issue of July 28th, 1951.

'It seems likely that your correspondent refers to a certificate on a form relating to an "application for an allocation of starch and/or dextrine for non-food industrial use". If this is so, I am able to state that I am informed by the Ministry of Food that the certificate may be dispensed with provided that the form is signed by a responsible officer of the company making application for the allocation.

'The Council of this Institute is of opinion that, where an auditor is asked to sign a certificate and it is quite impracticable for him to do so for technical or other reasons, representations should be made by his clients through the appropriate trade association for the certificate in question to be withdrawn or modified. In certain circumstances it may also be desirable for the auditor to alter the wording of a certificate in order that he may be in a position to sign it.'

Retention of Papers by Accountants

85. At its meeting on April 4th, 1951, the Council approved a statement regarding the ownership of records and an accountant's lien. This statement was included in the pamphlet of supplements to the 'Members' Handbook'. A further statement was approved by the Council at its meeting on March 5th, 1952, for inclusion in the next pamphlet of supplements.

Liability of an Accountant for the Loss of Clients' Books or Papers which are in his possession

86. At its meeting on February 6th, 1952, the Council authorized the publication of the following statement:

'The Council has been advised that, in the absence of negligence, an accountant would incur no liability in respect of the loss by fire or otherwise of books or papers belonging to clients which may be in his possession but that the onus of proof of absence of negligence would be on the accountant.

'As a claim in respect of the loss of books and papers may well be considerably in excess of the stationery value of such books and papers, the Council reminds members that it may be desirable for them to review their insurance policies to make sure that they are protected against any liabilities of whatsoever nature which they may incur to third parties in respect of the loss of "documents" – this word being used in its widest sense.'

87. In this same connexion inquiries have also been made as to the position where documents, such as draft accounts, may be lost during transit by registered post. A letter dated August 3rd, 1951, from the Postmaster-General is reproduced on page 68 of the Appendix.[1]

Advertising of Accountancy Services by Members of other Professions and by Banks

88. As occasion demands the Council has taken up with other professional bodies and with banks cases where there has been what is considered to be undesirable advertising of accountancy services. In two cases of advertising by firms of auctioneers and surveyors replies have been received from the professional bodies concerned that such advertising will cease. A bank has, at the Council's request, altered the wording in a booklet issued to customers in which reference is made to its income-tax service. The Public Trustee has also consented to alter the form of wording used in a letter which is sent out to beneficiaries under trusts administered by him and in which reference is made to services available by his department in connexion with income-tax repayment claims.

Scale of Fees for Accountants performing Services for Government Departments

89. In conjunction with other accountancy bodies an approach is being made to the Treasury for a revision of the 1947 scale of fees payable to public accountants who perform services for government departments.

Accountants' Joint Parliamentary Committee

90. The Accountants' Joint Parliamentary Committee has continued its work of watching all parliamentary matters relating to the qualification and status of accountants and auditors. Throughout the year under review the joint committee has been successful in maintaining the adoption of a form of audit clause which confines in effect the choice of professional auditor to members of the accountancy bodies represented on the joint committee.

[1] Not reproduced. – Editor.

The Institute of Chartered Accountants of Scotland

91. At its meeting on July 4th, 1951, the Council was informed that the formalities for the amalgamation of the three Scottish bodies of chartered accountants had been completed and the Council sent its good wishes to the President of the new body which has the title The Institute of Chartered Accountants of Scotland.

Draft Public Accountants' Bill

92. At the annual meeting held on May 2nd, 1951, the then President stated that new draft Bills in various forms had received the consideration of the Co-ordinating Committee, but that it had not been possible to arrive at any draft which the Council could recommend to members as satisfying the Institute's minimum requirements in respect of the protection which should be provided both to the public and to members against the activities of unqualified persons who may be engaged wholly or in part on accountancy work of all kinds and who advertise their services. He explained that in the opinion of the Council this arose from the impracticability of arriving at any satisfactory statutory definition of 'accountancy' which would be generally acceptable and from the fact that accountancy services which cannot be controlled are rendered by so many persons other than practising accountants themselves. He reported that the Council had advised the Co-ordinating Committee that it had reluctantly reached the conclusion that no useful purpose would be served in continuing negotiations for the co-ordination of the profession on the lines of the draft Bills which had been under consideration. He said that the Co-ordinating Committee was continuing in being and that the Council had suggested that the committee should, as a first step, explore the possibility of obtaining an amendment of Section 161 of the Companies Act, 1948, so as to extend the application of that section to all companies and, in addition, to strengthen the requirements of the Act in respect of the qualification of persons for appointment as auditors. The Co-ordinating Committee has now decided to recommend to the Board of Trade that these proposals be implemented.

Members in Overseas Countries

93. Legislation and other activities in various parts of the world affecting the practice of accountancy and auditing have been watched closely and representations have been made when necessary through the appropriate channels. At its meeting on April 2nd, 1952, the Council approved the following statement for publication in the report of the proceedings of the Council:

'The Council wishes it to be known that there is nothing in the Royal Charters and bye-laws which would prevent a member in an overseas country from adding the words "(England and Wales)" after the description "chartered accountant" or after the letters A.C.A. or F.C.A., if he so desires and local regulations permit.'

Accountants and Economists

94. The report on 'Some Accounting Terms and Concepts' (referred to in paragraph 87 of the last report) was published by the Cambridge University Press in August 1951, price 3s per copy. The report is the responsibility of the members of the Joint Exploratory Committee, three of whom were appointed by the Council and three by the National Institute of Economic and Social Research. The Council has recorded its appreciation of the work of the members appointed by the Council and also of the work of those members of the Taxation and Research Committee who in the early stages acted in an advisory capacity.

The P. D. Leake Trust Fund

95. The P. D. Leake Trust Fund (referred to in paragraph 108 of the report for 1949) has not yet been received by the Institute. The Council has appointed Messrs W. L. Barrows, F.C.A., W. G. Campbell, B.A., F.C.A., D. V. House, F.C.A., and Sir Russell Kettle, F.C.A., to act with the President as the committee which is required, under the terms of the will, to be appointed to administer the income when the fund has been received. The committee is considering various possible ways in which the income of the fund might be used.

Hall and Offices

96. The Council Chamber, the Oak Hall and other parts of the Institute building have been redecorated since the last report. Not only was this long overdue work necessary to preserve the interior, but it was also considered desirable that the whole building should be in a good state of decoration in view of the number of distinguished visitors from overseas who may be expected during the Sixth International Congress on Accounting.

Library

97. *Activity.* Members continue to make more use of the library and the following figures show the growth of activity in recent years:

Year	Persons attending	Books lent
1946	7,498	3,140
1947	6,908	3,608
1948	7,959	3,822
1949	8,389	3,725
1950	9,092	3,929
1951	10,263	4,213

98. *Library hours.* With effect from April 1st, 1952, the library hours have been changed to 9.30 a.m. (instead of 10 a.m.) until 6 p.m. except during August when the building is closed at 5 p.m. On Saturdays the hours are 10 a.m. until 12 noon.

99. *Organization.* A new issuing desk has been installed and a stairway to the basement has been constructed. The desk provides additional shelving and the general appearance of the library has been improved. The new stairway gives easier access to the rooms in the basement which accommodate earlier editions and infrequently used books, to the advantage of the staff and the improvement of the service available to members.

100. *Drawing by Hanslip Fletcher.* A drawing of the library by Hanslip Fletcher was published in the *Sunday Times* of February 26th, 1950. The Council has pleasure in reporting that Lord Kemsley has presented to the Institute the original drawing which now hangs in the Secretary's room.

Appointments Register

101. Activity on the appointments register was a little greater than in 1950, the number of members placed increasing in proportion to the increase in inquiries from employers. The demand for young members still exceeds the supply and few of the younger members are interested in the many vacant appointments abroad. Some of the middle-aged and older members continue to experience difficulty in securing new appointments and any assistance from members who are aware of suitable full-time or part-time employment will be welcomed.

'Members' Handbook'

102. A pamphlet of supplements to the 'Members' Handbook' was issued to all members of the Institute on June 28th, 1951.

Institute Journal or Bulletin

103. It has not been practicable to consider further the proposal (referred to in paragraph 45 of the report for 1947) to issue a journal or bulletin periodically to all members.

Nominations to Other Bodies

104. *City of Birmingham Education Department.* Mr W. L. Barrows, F.C.A., has been nominated as the representative of the Institute on the Commercial College Advisory Committee of the City of Birmingham Education Department for the municipal year ending in May 1952.

105. *British Institute of Management.* Mr B. Smallpeice, A.C.A., has been appointed as the representative of the Institute on the Overseas Relations Co-ordination Committee of the British Institute of Management.

106. *University of Nottingham.* Mr E. P. Broome, F.C.A., has been nominated as the representative of the Institute on the Court of the University of Nottingham.

107. *Joint Committee for National Certificates in Commerce.* Mr P. F. Carpenter, F.C.A., has been nominated to serve in a purely personal and advisory capacity on the Joint Committee for National Certificates in Commerce.

National Savings

108. A letter from the President of the Institute appealing for support for the national savings movement was published in *The Accountant* of February 16th, 1952.

Institute Staff

109. *Appointments.* Mr Michael Anthony Smith, M.A., Barrister-at-Law, has been appointed a Secretarial Assistant in place of Mr Guy William Tyrwhitt-Drake, A.C.A., who resigned in 1951. Mr Keith Horton Saunderson, A.C.A., has been appointed to assist in the work of the Taxation and Research Committee; this is a temporary appointment for a period of up to three years. Mr Hugh William Thomson, who has been in the employment of the Institute for seventeen years, has been appointed Librarian from January 1st, 1952, following the resignation of Mr Reginald Horrox, M.A.

110. *Staff pensions.* The adoption of a revised scheme for pensions for the Institute's staff is still under consideration.

Investment Policy

111. Following the Council's decision in December 1950 (paragraph 107 of the last report) to invest in variable dividend securities up to one-half of the funds available for investment, approximately £35,000 was invested early in 1951 in equity stocks and shares of insurance companies and investment trusts. In October 1951 the Council decided that, in suitable circumstances, up to two-thirds of the available funds might be invested in equity stocks and shares and that the choice of investments could be extended to include selected industrial and other companies. This decision was not implemented during 1951 as no suitable occasion arose. Funds available were lent to local authorities at short notice pending reinvestment.

Accounts

112. The accounts for 1951,[1] duly audited, are annexed to this report and show an excess of income over expenditure of £14,482. This amount, together with that of £16,673 for 1950, offsets a large part of the cumulative deficit incurred from 1939 to 1949, with the result that the accumulated fund, at £158,091, is now only £5,541 less than the 1939 figure of £163,632.

Auditors

113. At the 1951 annual meeting it was resolved that the fees of the auditors be increased from 150 guineas to 250 guineas each by reason of the increase in the volume of work entailed by the increased activities of the Institute and having regard to the changing conditions, especially the rising costs with which all practising accountants have to contend.

114. The auditors, Mr. Geoffrey Bostock, F.C.A., and Mr John Myers, F.C.A., retire in conformity with Bye-law 115, and are eligible for reappointment.

CHARLES W. BOYCE,

April 2nd, 1952. *President.*

[1] Not reproduced. – Editor.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

SIXTY-SIXTH ANNUAL REPORT

The sixty-sixth annual general meeting of the Chartered Accountants' Benevolent Association will be held at the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, on Wednesday, May 7th, 1952, at the conclusion of the annual meeting of The Institute of Chartered Accountants in England and Wales.

We reproduce below the report of the Board of Governors for the year ended February 29th, 1952.

1. The Association on February 29th, 1952, consisted of 3,066 members, viz.:

The President	374 Annual Governors
59 Vice-Presidents	89 Life Members
11 Life Governors	2,532 Annual Members

being a net increase of 244 during the year.

2. The total expended by the Association in relief since its formation amounts to £188,690.

3. The relief granted, details of which are set out on pages 13 to 23[1], compares with the income during the last five years as follows:

Year	Relief	Subscriptions	Interest and Dividends
	£	£	£
1947–1948 ..	5,634	4,415	3,097
1948–1949 ..	6,157	4,283	3,146
1949–1950 ..	6,721	4,473	3,383
1950–1951 ..	9,016	4,957	3,779
1951–1952 ..	9,432	5,142	*4,196

*See paragraph 16.

4. The grants made by the Association out of the 'W. B. Peat' Memorial Scholarship Fund amounted to £140.

5. During the year 20 new applications for assistance have been received; assistance is being given in 16 of these cases. In all, 96 cases have been assisted from the general fund and 7 cases from the 'W. B. Peat' Memorial Scholarship Fund.

6. In the last report it was indicated that the accounts did not reflect the increases in the relief scale approved in November 1950, and that expenditure on relief was expected to increase even though the special expenditure of £1,350 would not be repeated. This expectation has been borne out and a deficit has been incurred although income has increased. *The deficit is a matter of concern to the Board of Governors, which is of opinion that, unless revenue is increased, there will be a greater deficit in the current year in view of the number of applications for assistance received and the continuing increase in the cost of living.*

7. It is proposed to publish a full list of subscribers for the year 1952–53 and it is hoped that this list will show a much greater proportion of members of the Institute who subscribe to the Association. The present proportion of less than one in five is not regarded as being satisfactory.

8. Since the last report, the Association has received legacies and special donations, including:

	£	s	d
Executors of the late G. H. Fry (on account)	2,500	0	0
J. N. Derbyshire, F.C.A., to establish the H. F. Holloway Memorial	1,000	0	0
Executors of the late Alice I. Hardy ..	450	0	0
Executors of the late William Cash, F.C.A...	250	0	0
Arthur H. Elliott, A.C.A.	100	0	0
Autumnal Meeting Church Collection ..	81	18	3
Executors of the late Thomas Greenwood, F.C.A.	81	16	2
Executors of the late Mary Bowyer ..	80	17	3
E. D. London, A.C.A.	52	10	0
Delmar Charitable Trust	50	0	0
D. T. Veale, M.A., F.C.A.	31	10	0
Chartered Accountants' Rugby Football Club	19	14	11
Chartered Accountants' Lodge	10	10	0
Council Luncheon Club	10	10	0
Bekonscot Model Railway and General Charitable Association	10	0	0

General information about the objects and activities of the Association is set out in the report.

9. There appeared in the report for 1950–51 a reference to a change in the investment policy whereby a considerable proportion of the Association's funds would be invested in other than fixed-interest securities. A schedule of the Association's investments appears on pages 10 and 11[1], from which it will be observed that approximately two-thirds of the funds are now invested in the equities of insurance companies, investment trusts and selected industrial companies.

10. The Board wishes to record its warm appreciation of the work of the Investment Sub-Committee of the Executive Committee in giving effect to the change of policy and in managing the investments generally.

11. The Association continues to take an active interest in the progress of Crossways Trust. The two homes which have been opened by this Trust are now firmly established and it is hoped that it will be able gradually to increase the number of homes so that accommodation for old people, whether able-bodied or infirm, will be available in due course throughout the country. Mr C. H. S. Loveday, as a governor of the Trust, continues most ably to represent the Association in its affairs.

12. In past years the Association has been able, through the generosity of other bodies of accountants overseas, to send food parcels to many of its beneficiaries. This year it was decided to send food parcels at Christmas to certain of our beneficiaries at the expense of the Association and it is hoped to carry on with this procedure. In this matter we shall be greatly assisted by the H. F. Holloway Memorial, which has been established by a most generous gift of £1,000 from Mr J. N. Derbyshire, F.C.A. The income from this gift is at the disposal of the Executive Committee of the Association to be applied in providing gifts in kind at Christmas to those beneficiaries on the Association's books who, in the opinion of the Executive Committee, are most deserving of such help, or to the children of beneficiaries.

13. The Board is appreciative of the help which it has received from the sub-committees of the provincial societies in interviewing applicants for assistance.

14. The Board thanks the editor of *The Accountant* for the continued publicity which he has given to the Association.

15. The honorary auditors, Mr Geoffrey Bostock, F.C.A., and Mr John Myers, F.C.A., retire and kindly offer themselves for reappointment.

16. The accounts for the year ended February 29th, 1952, duly audited, are annexed to this report.[1] It will be observed that a change has been made in the income and expenditure account whereby credit is taken for recoverable income-tax deducted at source from investment income. This has become necessary because a substantial part of the investment income is in this form following the change of investment policy; the change results in the inclusion of two years' recoverable income-tax and a consequential understatement of the deficit for the year by approximately £50.

GEORGE R. FREEMAN,
President.

April 2nd, 1952.

[1] Not reproduced. – Editor.

NOTES AND NOTICES

Personal

MESSRS WARMSLEY & ROBERTS, Chartered Accountants, of 5 Library Street, Blackburn, announce with regret the death on April 10th, 1952, of their senior partner, Mr HENRY LEONARD WARMSLEY, A.C.A. The practice will be carried on by the remaining partner Mr HENRY ROBERTS, A.C.A., A.C.I.S., under the same name as formerly.

MESSRS MELLOR, SNAPE & Co, Chartered Accountants, of Old Colony House, South King Street, Manchester, 2, Crewe and Macclesfield, announce that they have admitted into partnership, as from January 1st, 1952, Mr CHARLES PHILIP TWEMLOW, F.C.A., who has been a partner in the Crewe practice only for the past ten years, and Mr KENNETH ANDREWS MILLICHAP, A.C.A.

MESSRS SWANWICK, TERRAS & Co, Chartered Accountants, of 64 Cross Street, Manchester, announce with deep regret the death on April 14th, 1952, of their senior partner, and member of the firm since 1908, Mr HERBERT TERRAS, F.C.A. The practice will be continued under the same name by the surviving partners.

MESSRS C. B. FISH, MARING & Co, Chartered Accountants, announce that they moved their office from 46 Wilton Place, Knightsbridge, SW1, to 77 Gloucester Road, SW7, on April 24th.

MESSRS E. CARPENDALE, CORTON & Co, Chartered Accountants, of 32 De Montfort Street, Leicester, announce that as from April 1st, 1952, they have taken into partnership Mr J. N. WAGSTAFF, A.C.A., who has been a member of their staff for a number of years. The name of the firm will remain unchanged.

Obituary

HERBERT TERRAS, F.C.A.

It is with regret that we record the death on April 14th of Mr Herbert Terras, F.C.A., senior partner in the firm of Swanwick, Terras & Co, Chartered Accountants, of Manchester.

Mr Terras, who served his articles at the beginning of the century, was admitted an Associate of the Institute in November 1906 and commenced in practice two years later with Mr P. G. Swanwick, to whom he had been articled. He was elected a Fellow of the Institute in January 1918.

For several years president of the Cheshire Lawn Tennis Association and for many years one of its representatives on the Lawn Tennis Association in London, Mr Terras had played for Cheshire at lawn tennis and also hockey on many occasions.

United Kingdom – France: Double Taxation Agreement

The Board of Inland Revenue states that the French Government has published a notice to United Kingdom residents explaining how to claim relief from French tax under the double taxation agreement between the two countries.

The notice includes an announcement that the rate of French tax on the profits of United Kingdom companies trading in France will remain at 10 per cent, and that by concession these companies will be able to reclaim French tax in excess of this rate which has been paid since the beginning of 1950, in spite of the provisions of Article XXV of the Agreement which prohibit any repayment of tax paid before July 30th, 1951.

Copies of the notice and forms for claiming relief under the Agreement may be obtained from the Inspector of Foreign Dividends, Lynwood Road, Thames Ditton, Surrey.

Double Taxation Relief: Burma

The Double Taxation Relief Agreement with Burma relating to taxes on income was ratified on March 26th, 1952, and has now been published as the schedule to an order in Council numbered S.I. 1952 No. 751.

Chartered Accountant elected Master of City Livery Company

At the Livery meeting and dinner of the Worshipful Company of Upholders held at Ironmongers' Hall, London, on April 22nd, Mr Neville B. Hayman, F.C.A., A.C.I.S., was installed Master of the Company. It is believed that Mr Hayman is the first chartered accountant to be elected Master.

One of the ancient livery companies of the City of London, the Worshipful Company of Upholders was granted its coat of arms in 1465 and was incorporated by charter in 1669. The bye-laws of the company empowered the Master and Wardens to search for spurious goods made or sold within the City.

Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, was present at the dinner and responded to the toast of 'The Guests', proposed by Mr John P. Stephens, F.C.A. Among the members and guests present were Alderman S. Harold Gillett, M.C., C.C., F.C.A., and Messrs Alan S. MacIver, M.C., Secretary of the Institute, E. J. Simmonds, A.C.A., A.C.I.S., W. E. Sykes, M.C., J.P., C.C., F.C.A., H. R. C. White, F.C.A., F.C.I.S., and R. H. Diaper, A.C.A.

The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants

The annual general meeting of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants was held on April 7th, at *The White House Hotel,* Jameson Street, Hull, when the following officers were elected for 1952–53:

President: Col. N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A.

Vice-President: H. F. Strachan, F.C.A.

Hon. Treasurer: K. P. Helm, F.C.A.

Hon. Librarian: H. G. Sergeant, A.C.A.

Joint Hon. Secretaries: J. Hankinson, A.C.A. (General Committee) and R. C. Copeman, A.C.A. (Taxation and Research Committee).

Committee: Messrs C. M. Strachan (member of the Council of the Institute), G. B. Robins (retiring President), A. A. Beardsall, D. C. S. Downs, W. B. Hall, J. G. Hanwell, E. K. Locking, T. W. Mackrill, E. C. Mallett, F. S. Mowforth, A. S. Freeth Oliver, A. G. Pearson, R. G. Slack, N. Townend and A. N. Townsley.

The Chartered Accountant Students' Society of London

The annual general meeting of the London Students' Society will be held at 5.30 p.m. on Thursday, May 1st, in the Conference Hall of the Chartered Insurance Institute, 20 Aldermanbury, EC2. It has been necessary to change the date from that mentioned in the preliminary announcement given to members.

At the meeting a presentation will be made to Sir Harold Howitt on the completion of his five-year period as President of the Society. In addition to the election of officers, the business before the meeting will include a proposal to alter the rules in order to increase the number of places available on the committee and the election of members to fill the additional vacancies thus made available.

The chairman of the committee will review the work of the Society during the year. It is hoped that a large number of members will make use of the opportunity afforded by this meeting to take part in the discussion of matters affecting their Society.

Chartered Accountant to be Mayor

Mr William Austin, A.C.A., is to be mayor of Yeovil. He has served on the Finance, Highways, Water and Library Committees of the town council and is chairman of the Yeovil branch of the British Legion.

Annotated Tax Cases

Part seven of Volume XXX of the *Annotated Tax Cases*, edited by Roy E. Borneman, Q.C., has now been published and contains reports, with notes on the judgments, of the following cases: *New South Wales Stamp Duties Commissioner v. Way* (P.C.); *Chibbett v. Harold Brookfield & Son Ltd* (Ch.D.); *Blunson v. West Midlands Gas Board* (Ch.D.); *C.I.R. v. Corporation of London (as Conservators of Epping Forest)* (Ch.D.); *Samuel Jones & Co (Devonvale) Ltd v. C.I.R.* (C.S.); *Mitchell v. C.I.R.* (C.S.); *C.I.R. v. Fleming & Co (Machinery) Ltd* (C.S.); *C.I.R. v. City of Glasgow Police Athletic Association* (C.S.); *Faulconbridge v. Thomas Pinkney & Sons Ltd* (Ch.D); *Wilkie v. C.I.R.* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30*s* post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

The Institute of Actuaries

An ordinary general meeting of the Institute will be held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, at 5 p.m. on Monday, April 28th, when Mr F. M. Redington, M.A., F.I.A., will submit a paper entitled 'Review of the principles of Life Office valuations'.

The Finance Bill

The new income-tax reduced rate of 7*s* 6*d* proposed in the Finance Bill extends to only £150 of taxable income and not to £200 as stated in the first leading article in our issue of April 12th, 1952.

Recent Publication

THE MUNICIPAL BUSINESS TAX IN CANADA, by Robert M. Clark, PH.D. Canadian Tax Papers No. 5. viii + 54 pp. 9 × 6. Paper cover. $1 net. Canadian Tax Foundation, Toronto.

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CONTENTS

THE ASSOCIATION'S YEAR

THE report of the Council of the Association of Certified and Corporate Accountants for 1951[1] records another year of continued progress and achievement. While the number of examination entrants has again decreased – in comparison with the abnormal figures of the immediate post-war years – the standard of performance has been markedly higher. Improvements in the syllabus, shortly to become operative, have been designed further to test the candidate's knowledge of the subjects in which he is being examined, without affecting the standards hitherto maintained. As a result of increased revenues from admission fees and subscriptions, due to the new rates effective as from January 1951, the Association's income and expenditure account shows a surplus of £954 as compared with a deficit of £3,724 for the previous year. The membership continues to increase and now exceeds 8,000.

In his speech – extracts from which are reported elsewhere in this issue – moving the adoption of the report and accounts at the annual general meeting of the Association held last Tuesday, LORD LATHAM, J.P., F.A.C.C.A., F.C.I.S., pays deserved tribute to the members responsible for preparing the three memoranda of evidence which have now been submitted to the Royal Commission on Taxation of Profits and Income. The first memorandum dealt with social and economic matters and the other two covered respectively general questions of income-tax and double taxation.

A large part of LORD LATHAM's address is devoted to the problem of making adequate provision for the replacement of fixed assets under conditions of rising costs, and outlines the contributions which the Association is making towards a solution which, in its opinion, would be in accordance with both sound accounting principles and sensible economic practice. Briefly, the Association advocates a policy which, in the President's words:

> '. . . takes proper account of the predominant part that replacement cost should play in fixing the basis of adequate provision for the depreciation of capital assets and the valuation of consumable stocks, and thus in the ascertainment of true profit and the equitable taxation thereon.'

Having once accepted this principle, LORD LATHAM believes that the mechanics of implementing it on a basis acceptable to industry and the Inland Revenue, although difficult, should not be insurmountable. One basis, he suggests, might be a series of official price indices, indicating fixed asset replacement costs in various industries and classes of assets.

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[1] Extracts from the report were published in *The Accountant* dated April 19th, 1952.

THE FUTURE OF AUDITING

THE profession of accountancy has developed so rapidly during the present century that auditing, while still the main preoccupation, is now but one of the many activities of the average practice. This expansion, brought about partly from within by the raising of the standards of the profession and partly from without by the growth of industry, has so increased both the capabilities and opportunities of the trained accountant that many leave the practising side of the profession soon after qualifying and make for themselves useful and lucrative careers in commerce. The two main effects on the professional office of this friendly infiltration by accountants into industry have been a gradual revision of audit procedures and a re-orientation of staff arrangements and responsibilities.

The implications of these changes are discussed in an article on another page by MR ANGUS MACBEATH, C.A., A.C.W.A. For the purposes of his survey, he divides the accountant's clients into three groups, small, medium and large concerns. The first of these, clearly, has seen the least change because the client probably cannot afford to employ permanently a qualified accountant and so the work of writing up and balancing the books and preparing the financial accounts devolves, as it always has done, on the auditor. Indeed, the only change of emphasis in the relationship is caused by the growing intricacy of taxation which tends to make the small trader lean even more heavily on his auditor than ever before. Many medium-sized companies now employ whole-time qualified accountants, but as few of these concerns have an internal audit department, the auditor is still obliged to carry out a reasonably detailed audit, the extent of the check being dictated by the degree of internal control in operation. In the case of most large companies however, adequately staffed accounts, and internal audit, departments are presided over by trained accountants, aware of the professional auditor's standards and requirements, so that the routine external audit may safely be reduced to a minimum; the auditor usually being able to satisfy himself in the main by reviewing the system of internal control and by scrutinizing the periodic internal audit reports.

The modification of detailed audit checking, made possible by improvements in the accounts systems of his larger clients, enables the external auditor to some extent to standardize his audit programmes. This, in turn, tends in time to alter the composition and balance of his staff. The number of highly skilled assistants can be restricted to those needed to supervise the audits and the detailed checking can be done by comparatively unskilled clerks, working to agreed programmes and time schedules.

As most large professional offices now have separate taxation, secretarial and investigations staffs, it would appear that the trend is towards specialization, not only in auditing, as MR MACBEATH's article demonstrates, but in accountancy work generally. While this is in many ways admirable from the viewpoints both of the practitioner and his client, it has a number of attendant dangers which must be guarded against. One is that the experience of the clerk serving his articles may be restricted in variety. This is not likely to happen in the smaller office, where 'one man in his time plays many parts', but it is possible in a larger firm where the arrangements for his training are not sufficiently flexible. Although experience in auditing is likely to predominate, each clerk should be given spells in the various other departments at appropriate stages in his training.

Care should also be taken to see that the audit programme is interpreted intelligently by the articled clerk and that he appreciates the successive steps from the initial vouching to the final verifications. However scientifically it may be planned, no audit can ever be reduced to a rigid formula because no business is ever static. Normal expansion, pressure from competition, and statutory requirements are but three of the many factors which cause the pattern and policy of most businesses continually to alter. These changes must be carefully observed by the auditor and quickly reflected in his audit programme. Although much of the drudgery, physical as well as mental, has been removed by the application of modern techniques, an audit must still be regarded as a human and not a mechanical operation which calls, more than ever before, for the exercise of initiative, skill and judgment.

THE TREND OF AUDIT PRACTICE

by ANGUS MacBEATH, C.A., A.C.W.A.

The accountancy profession is never allowed to stand still: changes in taxation law and procedure, for example, are constantly thrust upon it. Audit procedure has also changed with the passage of time and the author examines some of the trends which are rising in audit practice today. This article is concerned primarily with industrial audits.

CHANGING circumstances in other fields of life are matched also in the accountancy profession. The scope of the profession has been widened during the twentieth century and there has been no reduction in the amount of work. Thus, in addition to auditing, which is probably still the major occupation of the profession, there are such matters as accountancy work, liquidations, bankruptcies, secretarial work, investigations, costing, and taxation, this last item assuming a growing importance with the continually increasing weight which taxation has become on the community during the passage of two world wars.

As was only to be expected, the increasing scope of the profession made it attractive to those seeking a business occupation and the membership of the various accounting bodies has continued to grow.

The growth in numbers, however, outstripped the requirements of the profession itself and many qualified accountants left professional practice to become attached to industrial concerns. This change from the professional practice to industry is today tending to produce a boomerang effect upon the practice of auditing and consequently upon the profession itself.

Early Days

In former years, when the profession was a younger brother to the older professions, there were few accountants, if any, engaged full-time in industry, and the books of account were laboriously written up by hand in counting houses under the supervision of head book-keepers.

These head book-keepers were responsible for the records up to what we would today call the trial balance stage, though in some businesses they may even have had to depend on the auditor-accountant to extract the trial balance by posting the private ledger from the books of original entry which were the limit of the book-keeper's domain.

Those early days left the auditor-accountant in the strong position of being indispensable for the production of the annual accounts.

Accountants in Industry

When qualified accountants went into industry as employees a radical change came about. Instead of remaining outside and carrying through for industry certain work which industry was not capable of carrying through for itself, the qualified accountant went right inside as a salaried official and was thus able to carry through accounting work which was previously the exclusive province of the professional accountant.

The change went further because the professional accountant had handled his functions of auditor-accountant as a part of the whole – his practice included all the other work which the profession carried through – whereas the industrial accountant found himself with this part of the practice as his main occupation. Developments were inevitable and we find today a greatly changed scene from the bound books and annual accounts of yesteryear to the period costs, budgets and up-to-date accounting data which are produced for the use of management today.

It was inevitable that auditing practice should alter also. In former quieter days the audit procedure would probably be to vouch all the purchases and payments, and as much of the income as possible; to check all the postings between the various books and to enter up the private ledger and extract the balance sheet and profit and loss account.

What do we find today?

If we divide the consideration into three sections these would readily be for small businesses, for medium-sized companies, and for large companies.

Small Businesses

In small businesses the position and work of the auditor-accountant has probably altered least of all. The main change is in the great emphasis now placed upon the taxation charge. Many small businesses have accounts prepared for the sole purpose of satisfying the Inland Revenue department. The progress of a business is measured by the proprietors by the increase or decrease in the bank balance, the changes in the debtors' and creditors' totals, and by the quantity of stock which is being carried.

These small businesses usually have a very elementary system of book-keeping, the books being written up either by the proprietor himself or by one of his family.

With these small businesses the auditor-accountant will do as he has always done: check the records, prepare accounts, satisfy himself from the gross profit percentage that they show a reasonable position (it is usually impossible to check the sales side where the business is a cash business), forward copies to the client and to the Inland Revenue department, agree the liability to taxation arising on the accounts, and commiserate with the client on the extortionate amount of tax which requires to be paid – an amount which is always too large whatever the rate of tax and whatever the circumstances!

Medium-sized Companies

Medium-sized companies are of at least two types: there is the conservatively run old family business which prefers to leave its affairs in the hands of an outside accountant rather than to engage a full-time accountant within its own office, and there is the company, either public or private, which endeavours to have the best obtainable staff in charge of each department.

How different those companies frequently are! Both went quietly about the business of administration in pre-war days, accepting the presence of the auditors and showing little interest in the proceedings, dealing with the points which were raised during the audit and taking a benign interest in any suggestions for improvements which were made. The audit work followed a set path for all medium-sized companies. The auditor was usually responsible for settlement of the taxation liabilities of the company so that the audit programme was framed to satisfy the audit requirements and also to provide for the extraction of all the information on the accounts which was expected to be required for taxation purposes.

Few medium-sized companies had their own internal audit department so that the auditor was obliged to perform a full audit in the sense that he had to examine all the transactions of the company in sufficient detail to satisfy himself so far as he could that neither fraud, omission, nor error had arisen or been perpetrated and that the accounts were correctly drawn up.

The discussion and agreement of divisions between capital and revenue were made without much difficulty.

Wartime Changes

Then came the war, an income-tax of 10*s* in the £ and an excess profits tax of 100 per cent.

In many medium-sized companies the auditor-accountant promptly became one of the most important people with whom the management had to deal because upon him fell the burden of agreeing the liability to taxation. Audit work was cut to the barest minimum and the taxation work became of paramount importance. Items which, with tax at or below 5*s* in the £, were settled quickly without any fuss were now examined closely and subjected to the most careful discussion before being approved. The adjustments which the auditor proposed to make to the balance of profits shown by the accounts in arriving at the taxable profits were gone through in a detailed fashion never before attempted by the management.

Then the war was over and the audit programme was overhauled to bring it back once more to a reasonable level of examination: the Companies Act, 1948, gave the auditor a new tenure of office and laid upon him new responsibilities.

Generally speaking, the audit procedure with medium-sized companies may not have altered a great deal where the companies do not employ a qualified accountant. However, where qualified accountants are in charge of the accounting system and of the preparation of the accounts, and particularly where an internal audit staff is employed, considerable changes may have taken place similar to those discussed in dealing with the larger companies now following.

Large Companies

It is in the audit practice as applied to the larger industrial concerns that the greatest degree of change is likely to be found.

Today every large company has a quota of qualified accountants on its staff. Many of these accountants neither see nor hear of the auditors because they are engaged in works departments or in cost departments in sections into which the auditors seldom, if ever, delve.

The chief accountant has the responsibility of preparing the annual accounts and of satisfying his directors that the accounts are proper for them to sign. He has an internal audit department responsible for detailed checking of routine transactions in accordance with an agreed programme of work which will be fixed by the chief accountant and reviewed from time to time in the light of experience.

The accounting department will supervise the accounting records through from the books of original entry to the private or nominal ledgers from which the trial balance leading to the annual accounts is extracted.

The position today is that many of the functions which were previously performed by the auditor-accountant have been taken over by the accountant in industry leaving the auditor with only the pure audit work to do.

The chief accountant, having been trained in the profession, has gone into industry with full knowledge of all the work of the profession, hence he is able so to arrange the accounting procedure that many of them regard the audit as unnecessary.

It is possible to imagine the irritation which can be caused to a chief accountant by being questioned on relatively simple points by an auditor's clerk who has a much smaller knowledge of auditing than has the chief accountant himself.

What effect has the drift of accountants into industry had on the handling of audit work?

Present-day Audits

The position which is developing is that audits are really being carried out in the offices of the auditors by a small number of highly-skilled technicians. They design a standard programme of audit work which can be adapted to the accounting routine of each company.

A copy of this audit programme can be adapted by the senior clerk on each audit and the work can then be put into the hands of junior clerks who need not be qualified and who need have little accountancy training at all. The work is supervised and allocated by an experienced clerk who need not be qualified provided he has had an adequate period of training in the auditing methods used by his firm.

Once the detailed or routine audit work has been carried through, the partner who handles the audit appears on the scene and takes the final points for discussion with the directors. These final points have been accumulated by the senior clerk from the matters brought to his attention during the course of the audit – matters which have been thrown up by the application of the audit programme.

Staff Trends

The changes in audit practice throw up a trend also in the staffing of accounting offices.

The small office continues to require staff who are capable of writing up books; of extracting trial balances and preparing sets of accounts; of preparing accounts from single-entry records; of auditing books which may be badly kept; of preparing, submitting and agreeing taxation computations, and of carrying through work of a secretarial nature, trust accounting and auditing, bankruptcies and liquidations, helping a client with his costs data, and performing all the other demands which clients make upon the accounting office today.

Since the clients are on the average smaller than those of the large office, the fees received also tend to be relatively smaller so that the small office is unable to pay the same rates of salary to its staff as the large office. The result today is that the large office attracts the staff who are eager for greater immediate rewards and the small office is left to struggle along as best it may, a heavy burden of responsibility in directing the staff being placed upon the partners.

The large office can specialize – that is, can divide the work of the office into sections each with staff who do no other work. Thus there are the audit department, the tax department, secretarial, investigations, bankruptcy, and so on. The audit department will generally be the largest and requires a small proportion of highly qualified accountants and a large mass of unqualified clerks. The qualified accountants carry out the supervision of the audits to programmes agreed by the partners.

Anomaly between Offices

The anomaly which arises between the large and small offices today is that the average clerk in the small office requires a much higher range of qualities than the average clerk on the large office audit staff. Yet, owing to the disparity in the fees which the two types of office are able to charge, the clerk in the large office can obtain a higher remuneration than the clerk in the small office.

The small office can offer an interesting variety of work for the intelligent clerk while the audit staff of the large office are in constant danger of falling into a dull repetition of work from which they can obtain little new knowledge or interest.

The two types of office are today likely to continue to lose staff on a fairly regular basis due, in the small office, to the hunt for greater rewards and, in the large office, to the search for more interesting and progressive work by the staff who are really 'worth their salt'.

Need for External Audit

Amid the changes which are being caused in large measure by the flow of qualified accountants

into industry, the need for an external audit nevertheless remains.

In order to fit into the changing pattern of the accountancy records and staffs of the large companies and the changing conception of audit requirements which such cases as *Rex v. Kylsant* in Britain and *McKesson and Robbins* in the United States have created, the audit programmes applied today probably show radical alteration compared with those of the early twentieth century.

The production of fully written-up and balanced books, the use of machine accounting for much of the routine work, and the work of internal audit departments has cut out the need for any accounting work to be done by the auditor and also much of the detailed work previously associated with an audit.

The audit work today is divided between the detailed audit: the checking of the transactions during the year, and the final audit: the audit of the balance sheet at the end of the financial year.

Test Checking

The detailed audit may be carried on throughout the year, or at one or more interim audits, or once only each year at the same time as the final audit. Whatever procedure be adopted the work will usually consist of a test check – a check which does not by any means infer the checking of an item here and there! For example, suppose a 2 per cent check is decided upon, this check will be equal to two weeks in the year and for those two weeks the whole accounting records of the company would be checked right through from the original entry (or the records leading up to the original entry) to the private ledger and including the cost accounts where the details are tested to confirm that the prices of the stocks and work in progress have been properly compiled.

This 2 per cent check, if no errors are found or merely minor points arise, will be accepted as confirming that the internal audit department are carrying through their allocated work, that the internal control is operating satisfactorily and that the entries in the books for the whole year are correct and in order.

Final Audit

At the final audit the programmes applied will probably be entirely different from those of earlier days in the profession. The entries in the books are no longer considered sufficient check for assets and liabilities – it is necessary to go out and beyond the books.

Thus, in the examination of capital expenditure if, for example, the books state that £60,000 has been expended on new coke ovens the auditor may ask to see the new ovens even though his inexpert knowledge may find him saying 'What! Sixty thousand for that?' as the writer recollects happening on one occasion.

The auditor will probably have a look at the stock and will not restrict his audit to an examination of the stock sheets. If there is something wrong with the stock it is one thing to say 'I was taken round the works by a chemist who had had nothing to do with the taking of stock and who assured me that the containers which I saw held the materials stated on the stock sheets' and quite another to say 'I had no idea that the field where the 40,000 tons of iron ore were supposed to be had only cows in it – I did not go to see'. The auditor may reasonably say that he cannot take stock but he can at least satisfy himself that there is something which looks like stock where stock is alleged to be.

The audit work is not confined to the transactions of the year but the transactions at the beginning of the new year will be scrutinized in confirming the debtors' and creditors' balances at the year end.

We have not yet adopted the United States practice of confirming either debtors' or creditors' balances by circular letter except in special cases. Some companies do circularize their creditors for statements for audit purposes but this is not a universal procedure.

Summing-up

The trend of audit practice would seem to indicate that detailed checking by the auditor will diminish progressively to the increase in internal audit departments and that professional audit staffs will increasingly tend to hinge round a few highly qualified professional men who will be able to plan the audit work to be carried through by the staffs and who, by their knowledge of many businesses and many accounting systems, can advise individual companies on accounting problems outwith the orbit of their own accounting staff.

The statutory requirements relating to accounts introduced by the Companies Act, 1948, may also, in conjunction with the internal audit departments, tend to move the professional audit from an examination in search of error or fraud to an investigation and test of the system of internal audit and control and compliance with the duties imposed by statute.

AUSTRALASIAN COMMENTARY – VII

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Costing and Textiles

MANY accountants associated with the textile industry are finding that reduced activity (in some cases no activity) in mills and make-up departments provides a breathing space to catch up on the back-log of cost work. Ordinarily, new price submissions necessary in States like New South Wales where the industry is subject to price control, make great inroads on the time available for the execution of normal duties in the cost department. Many cost accountants in, and professional advisers to, the industry are taking the opportunity provided by temporarily well-stocked wholesale and retail markets to review systems and overtake detail, free from the pressure of daily operations. Budgets for stand-by costs are more realistic when drawn on the present canvas.

It is generally felt that the condition is only temporary and already cases have come to notice of mills planning a re-opening after a six weeks' close. However unfortunate all of this may be, it has its compensations apart from those already mentioned. Planning of a return to operations is being made with an eye to greater efficiency, and accountants are playing a prominent part in this.

Auditing and Costing

Speaking of costing, 'Jan Szary', late of Poland, now of Sydney, writes to draw attention to the areas in auditing practice in which a knowledge of cost accounting is important. He cites the valuation of work in progress as a case where an independent opinion cannot be given except by a cost-minded auditor who has regard to such things as the proportion of overhead which should be carried by such stock. Again, the audit check of capital assets manufactured within the concern requires some knowledge of costing in order to check the assignment of costs. Perhaps the most common use of costing principles which will be made by an auditor is in relation to his investigation of the affairs of his client with a view to ascertaining the relation between cost, price and profit. (*The Chartered Accountant in Australia*, March.)

Social Accounting

The twelfth Commonwealth Institute of Accountants' research lecture in the University of Melbourne was delivered by Mr R. L. Mathews, B.COM., A.I.C.A., on the application of accounting techniques to problems of social accounting. The whole of this is not yet published and further reference will be made later, but Mr Mathews has made some interesting observations in the first part. He considers that accountants have for too long been content to sit back and allow economists and others to develop a system of accounts to which accounting has made little contribution except in name. The first task of accountants, he says, is to bring their specialized knowledge to bear on the problem of tidying up the process of social accounting as it now exists. This requires work in classifying and recording the social accounts.

The most constructive role which the accountant can play concerns the processes of collecting social accounting data, presenting the accounts in a form that can be easily understood by non-economists, and analysing and interpreting the information that they reveal. (*The Australian Accountant*, April.)

Integration

In a review of current problems discussed in oversea journals, the editor of *The Australian Accountant*, Mr A. A. Fitzgerald, B.COM., F.I.C.A., points out that one respect in which Australian management accounting generally falls short of the best overseas standards is in the almost complete absence in this country of integrated systems of financial and cost accounts. This opinion is so heavy with authority that no elaboration is needed. If it were not so, however, its ventilation would but produce confirmatory conclusions.

The further afield one probes, whether per medium of new clients or discussions with fellow practitioners, the more evident does it become that the decree *nisi* for the divorce between financial accounting and cost accounting is handed down in the early days by the imposition

of the present-type curricula and is turned into a decree absolute in later days by the presentation of cost accounting as a separate subject. After this, except in rare cases, the estranged couple are not even on speaking terms.

'I am not a costing man', or 'I know nothing about costing' are remarks heard too frequently for one's peace of mind as to the condition of professional standards. This points to a catch somewhere and it is this: that in nine cases out of ten, persons who make those remarks are not strictly speaking the truth. They do understand costs and they can and do discuss intelligently such things as pricing situations and differential costs applicable to alternative proposals. But apparently they balk at organizing the accounts on a one-system basis for historical cost purposes. It is suggested that the basic reason for this lies in early training, the condition once instituted being fostered by the impact of taxation laws on a busy profession.

Auditor's Judgment

It looks as though the stock-in-trade controversy is to start again after a short lull. In the March issue of *The Chartered Accountant in Australia*, Mr F. E. Trigg, F.C.A.(AUST.), of Sydney, argues against 'meaningless qualifications' in an auditor's report on the balance sheet whereby the inference is made that the auditor accepts no responsibility for stock-in-trade. Mr Trigg's case on this point must surely be sufficient to dispose of it. Another section of the article, however, deals with what the writer describes as the best practice and considers the part test checking plays therein. Here we have fresh problems. For instance, in describing how an auditor would examine the stock-keeping system in order to satisfy himself that it was operating efficiently, Mr Trigg gives an example of an auditor examining some of the stock cards to see whether the quantities had been properly entered on the stock sheets. He says:

> 'In some cases a 10 per cent check might be considered sufficient; in others 20 per cent, or perhaps 30 per cent, and so on; it depends entirely on the auditor's judgment.'

No one will deny this, but unfortunately it only raises a problem and does not solve anything. When can it be said that an auditor has exercised a sound judgment – such an one for example as would compel a court of law to concede that in the circumstances the auditor fulfilled his duty? Would anyone be rash enough to dismiss the possibility of conflicting opinions? Look at the problem of *judgment* itself. What is it based on? Experience among other things. But does that mean that an auditor should not take a job which calls for passing accounts including stock of a kind he has not met before? Other questions are obvious. It is to be remembered that most writers consider that the best practice should be in 'advance of the law'. It is to be noted further that our literature has possibly few, probably no, examples constituting case studies in this sort of work.

Inflation Accounting

A method of overcoming the defects in annual financial statements caused by fluctuations in the value of money is put forward by Mr T. K. Cowan, M.COM., A.P.A.N.Z. He suggests that the problem is how to show the effect of general changes in the value of money, and the problem does not consist of recording changes in the money value of specific assets as, for example, by an annual revaluation of land and buildings.

His method is to convert share capital on the basis of the index number for the year of subscription. Accumulated profits would be converted on the basis of the index number for each year, giving value reinvested in the business expressed in present-day pounds. Liabilities being money debts would not be converted. Fixed assets would be converted on the basis of the index number for the year of purchase, but investments such as mortgages and material savings would not require conversion; nor would current assets. Investments in quoted shares should be shown at the market price on balance date. The difference arising in the net result would be the subject of an adjustment made to shareholders' funds. The index number to which Mr Cowan refers is not discussed but he says it would be a 'general price index'. (*The Accountants' Journal*, New Zealand, January.)

Women Accountants

It is pointed out in the February issue of *The Accountants' Journal*, New Zealand, that there are approximately 100 women members of the New Zealand Society of Accountants, or about 2 per cent of the total membership. Many of them hold down very responsible positions and the attitude of the average male accountant towards them is far more respectful than that arising from a 'grudging acceptance', or 'amused tolerance'.

WEEKLY NOTES

The Royal Commission's Chairman

Mr Churchill announced in the House of Commons last Monday that the Queen had approved the appointment of Lord Radcliffe of Werneth as chairman of the Royal Commission on the Taxation of Profits and Income. On this occasion no comment was made by the Opposition, from which it may be inferred that the appointment receives general approval. Indeed it could hardly be otherwise. Lord Radcliffe has taken no active part in politics, while his brilliant grasp of the complexities of taxation law was amply demonstrated, to name only one occasion, when he presided over the joint committee which considered the Income Tax Consolidation Bill, and whose proceedings we referred to in our issue of February 23rd last at page 186.

It is to be hoped that the public sittings of the Commission can now proceed. It is nearly two years since the decision to appoint the Commission was taken. The Commission was in fact set up in December 1950, with Lord Cohen as chairman. He resigned in November 1951 on his appointment as a Lord of Appeal in Ordinary, an office which the new chairman also holds. Since then there have been no public sittings of the Commission. Lord Waverley was appointed chairman in February but resigned three days later in view of criticisms that he had expressed strong political views on financial, fiscal and social questions.

The Finance Bill

The Committee Stage of the Finance Bill began last Wednesday. Up to Tuesday 290 amendments, covering fifty pages, had been tabled. Of these amendments no less than 133 had been tabled by Conservative members. Clearly the Bill is not going to emerge from the Committee Stage entirely unscathed, and perhaps it is a little premature to attempt to master its more abstruse provisions.

Income Tax and Daily Travelling Expenses

In the income-tax case of *Newsom v. Robertson*, which was decided in the High Court last Wednesday, the appellant claimed to deduct, in arriving at his profit, the cost of travelling between his home at Whipsnade and the chambers at Lincoln's Inn where he practised at the Chancery Bar.

He had been granted a study allowance of one-eighth of the expenses of his residence and the Special Commissioners, on appeal, found as a fact that he carried on his practice at both addresses. They found further that during vacations he did the bulk of his work at home and that accordingly his home was the base of his professional operations during those times. They allowed the travelling expenses between home and chambers during vacation time only and disallowed those incurred in term time.

Both sides having appealed, Danckwerts, J., allowed the Crown's appeal and dismissed Mr Newsom's appeal. He held that in this case there was a dual purpose in the journeys in question, and that therefore no part of the expense of those journeys was incurred 'wholly and exclusively' for the purposes of the appellant's profession. The deduction of the expense was accordingly prohibited by Rule 3 (*a*) of Cases I and II, Schedule D, Income Tax Act, 1918.

Author's Sale of Copyright

On Tuesday last, Danckwerts, J., dismissed an appeal by Mr Compton Mackenzie (*Mackenzie v. Arnold*) against assessments on a lump sum of £20,000 received in receipt of the sale of the copyright in a number of books written by him. He had written the books while he was abroad between 1911 and 1930, and in the latter year had returned to this country where he continued to carry on his profession as author. He claimed that the £20,000 was not income but represented the proceeds of sale of capital assets. Alternatively, if it was income, he was entitled to deduct £19,000 for expenses incurred whilst writing the books abroad.

The learned judge said that it was well settled that an author had to pay tax on the proceeds of sale of copyright as a profit obtained in the practice of his profession. The £19,000 expenses, having been incurred in previous years, could not be deducted now.

Cakes and Biscuits Costings

The report published on Monday[1] of the team representing the British cake and biscuit industries which visited the United States last autumn under the auspices of the Anglo-American Council on Productivity, states that the approach of American biscuit manufacturers to costings is very similar to that of manufacturers in this country. Except in the case of small firms producing very few varieties, each type of biscuit is costed separately. Costing by variety of cake, on the other hand, was found to be the exception rather than the rule. One reason for this is that cake bakeries are on a much smaller scale than biscuit plants. Another is that short runs in cake factories make accurate detailed costing difficult. Where costings of individual varieties of cakes or biscuits are attempted, they are usually limited to cost of materials, labour, packaging and such bakery overheads as power, heat and light, depreciation and repairs and renewals. No allocation of delivery, selling and administrative expenses is made. In some small plants, the output is costed periodically as a whole. The year is divided into thirteen four-weekly accounting periods and the unit of cost used is 100 lb. (one American cwt.) of baked products.

[1] Obtainable from the Anglo-American Council on Productivity, 21 Tothill St, London, SW1.

Cost of Pensions and Other Benefits

The National Insurance Bill, 1952, has been published this week. The financial provisions of the Bill are also made available this week. The Government actuary reports that the extra expenditure arising out of the increased benefits for pensioners and other recipients of insurance benefits will in a few years exceed the increased income accruing at first to the National Insurance Fund until there is a deficit of £36 million by 1977–78. Taken with the deficit which exists at present, total annual expenditure will exceed income by £417 million in 1977–78.

Farm Prices Reviewed

It seems to be growing fashionable for the annual announcement of farm prices for the incoming 'farming' year to be made with the minimum indication to the consumer of what the changes imply for him. This year Sir Thomas Dugdale has given the price changes and clearly set out certain important departures in principle in the way in which farmers are to benefit from the alterations. But there is no mention of the cost to the consumer and little hint, as yet, given to the farmer as to how these new ideas fit into a long-term framework for the expansion of British agriculture. The farmer is assured that an expansion is contemplated and that the Government's plans are being worked out at present.

The important deviation in the method of support for farm prices from the ideas applied by the previous Government is that the farmer is not to be asked to bear himself any portion of recent cost increases. These are to be covered either by higher prices or higher subsidies. The basic idea is not so much to change the emphasis of farm production (which was the intention last year) as to increase output from the land in general – with special reference to meat.

This is an incentives scheme. To judge from the Minister's announcement last week it is exceedingly difficult to judge whether the changes are fair or overgenerous. The Government's plan to make use of all marginal land by raising farming incomes in this way is impossible to evaluate without knowing how the farmers are to be made to respond to higher incomes by increasing mechanization and by generally improved husbandry, what the official assumptions are about the trend of world food prices (it looks very much as though the assumption is that low world food prices are gone for many years), or how far the consumer in this country will be affected. The official attitude to the farmer has certainly undergone a remarkable transformation since the 1930s. What other industry in these days would get its prices increased first and the explanations afterwards?

Payment by Results

A second investigation into payment by results has now been published by the Ministry of Labour. The inquiry was limited to such payments schemes as could be directly related to output and excluded profit-sharing arrangements, good time-keeping bonuses and so on. The results now published can be compared with a similar investigation which was undertaken in October 1949 and published in March 1950. The latest inquiry was undertaken in October 1951.

From the tables published it is possible to make several interesting, general inferences. Space allows of mention of only two of them here. The first is that metal manufacture, engineering, textiles and a general group of industries are the most convinced users of payment by results schemes. In all these cases somewhere between 50 and 60 per cent of all workers earning a wage were on such a system. The rest were on time rates of some sort. At the other end of the scale, transport (excluding the railways) and the public utilities, were almost completely on time rates. Above this group, however, but still under 20 per cent, were such industries as printing, building, food, etc., and chemicals. In many such industries, of course, there is a high proportion of skilled work which will always be paid on a time basis.

On the other hand, since there are comparable figures available, and this is the second point to be mentioned, it is possible to see in which industries there has been the largest swing-over one way or the other since the 1949 inquiry. Broadly, all industries have moved in the direction of payment by results. The largest increase in proportion has been in building.

The 'Fares' Standstill

To judge from the Government's case in the fares debate this week, the drastic intervention by the Minister in the operations of the Transport Commission has benefited the public (and correspondingly embarrassed the Commission) to the tune of about £2½ million. It may yet be found that this has been a dear price for the electorate to pay for a remarkable constitutional precedent.

How the benefit of the standstill will affect different classes of transport passenger remains to be seen. But from the debate it would seem that the Government has set itself a most ambitious target which will take a good deal of adjustment of charges to bring about, if the different principles are to be properly implemented. On the one hand, it has now been officially accepted that sub-standard fares are a reasonable starting point for judging the level of charges from the general public's point of view. On the other, there are to be no subsidies for the railways (on the very sound ground that subsidies obscure inefficient operations). Moreover, the road haulage industry is to be denationalized without stripping the railways of their more remunerative traffic.

Least happily placed in this situation is the Commission itself. Its officials have not only to run the gauntlet of an inquiry before their charges can chase after uninhibited costs – now beyond that, the Government can put on the brakes, if the nature of the prospective balance to be achieved between expenditure and income, does not satisfy it.

REVIEWS

Preparation for Professional Examinations by J. H. Burton, F.S.A.A., F.I.M.T.A., F.C.C.S., F.T.I.I., F.R.Econ.S.

(Gee & Co (Publishers) Ltd, London. 10*s* net, 10*s* 6*d* post free)

Mr Burton deals much more gently with the prospective candidate than did a certain tutor who, many years ago, invariably prefaced his lectures with a few icy remarks on how to study. The life he prescribed was so ascetic that the unhappy articled clerk who tried faithfully to lead it looked upon the examination, when at long last it came, as a kind of comic relief.

The best of Mr Burton's advice is perhaps to be found in his chapter on examination room tactics. The margin between success and failure is often fractional and a brisk and workmanlike approach to those questions which are most likely to yield an extra mark or two may bring about that invaluable feeling of confidence which a good start to an examination paper often engenders.

Butterworths Commercial Controls by Butterworths Legal Editorial Staff

(Butterworth & Co (Publishers) Ltd, London. Four volumes £9 10*s* per set. Fortnightly service £2 15*s* per quarter)

The lot of the fictitious rural policeman who was haunted by the thought of all the memoranda and instructions which he received and was expected to understand and carry out, was happy compared with that of the present-day business man in this country who is subjected to an even larger number of controls which are not static but are being constantly amended by a flood of new statutory instruments that shows no sign of abating. Moreover, he must find out about them himself, which normally involves searching through a vast number of orders of more or less relevance. Anyone who has ever done this will heartily welcome these new volumes. They contain all the orders and official memoranda likely to concern trade and industry and are kept up to date by a fortnightly supplement which can be filed in the loose-leaf binder supplied. The ingenious indexing system makes the finding of the matter sought for comparatively easy, and has given very satisfactory results after an exhaustive trial.

Book-keeping for Solicitors by R. J. Carter, B.Com., A.C.A.

(Butterworth & Co (Publishers) Ltd, London. 25*s* net)

In this book, the beginner – for whom it is intended – learns the principles of double-entry by studying the effect of each transaction in the final accounts. This type of approach can be a great advance on more old-fashioned methods, but the exposition has to be exceedingly clear if the student is to be able to grasp the whole conception of book-keeping at such an early stage. On the whole, Mr Carter succeeds well in his task.

Both commercial book-keeping and the accounts of solicitors are dealt with in a remarkably short compass – perhaps too briefly sometimes. The illustrations are clear and well annotated but it is a pity that solicitors' ledger accounts are shown with three cash columns; the duplication caused by writing up a total column can scarcely be justified.

Budding solicitors may welcome the book as a great improvement on others which have been set for the Law Society examinations.

The Finance Act, 1951 by Butterworths Legal Editorial Staff

(Butterworth & Co (Publishers) Ltd, London. 12*s* 6*d* net)

It is useful to have under one cover the whole of the Finance Act, 1951, together with copious annotations to show the why and wherefore and the historical background of provisions – many of which seem at first sight incomprehensible.

Hospital Accountancy and Finance by Geoffrey A. Robinson, A.C.A.

(Sir Isaac Pitman & Sons Ltd, London. 40*s* net)

In this book the author seeks to describe the practical day-to-day routine of hospital accountancy and finance under the National Health Service, and at the same time to relate it to the various Statutory Instruments and memoranda issued by the Minister of Health where these have bearing. But in addition there are chapters on aspects of hospital finance which are not yet the subject of Ministry direction, such as departmental accounts and unit costing, in the development of which latitude is to some extent still left to hospital authorities.

The author, perhaps, hardly gives credit to some progressive hospitals in implying that budgetary control is new to the hospital world, but to what extent the system of budgetary control, which is described in this book, is practical or desirable must depend greatly on the size of the hospital concerned. It must be borne in mind that efficiency in a hospital is measured not only by cost, but also by the size of the 'output', and that in these times of waiting lists at least as much emphasis must be placed on increasing 'output', while maintaining 'quality', as in reducing cost.

A lengthy article from *The Accountant* on the subject of unit costing for hospitals has been included in the text of the chapter on this subject, but its value for the student has, to some extent, been reduced by the omission of the appendices referred to in the article.

More space could, with advantage, have been given to the subject of mechanization, which is an in-

creasingly important aspect of hospital accountancy.

Some of the views put forward by the author are not likely to go unchallenged, as for instance, his acceptance of a system which involves the keeping of comprehensive stock records within the stores on bin cards, and in duplication of the stock records maintained in the accounts department.

The inclusion of the relative Statutory Instruments is, however, of great assistance to students, for whom the book appears primarily to have been written. There is sufficient theory, especially in relation to budgetary control and costing, to make the book provocative and to give food for thought.

This work is a worthy attempt to assist students and others engaged in hospital accounting.

SHORTER NOTICES

ADVERTISING EXPENDITURE IN 1948, by Rodney Silverman, B.SC.(ECON.). (Newman Neame Ltd, London. 21*s* net.) Interesting statistics concerning the total expenditure on advertising in the United Kingdom in 1948, the media used, and the income derived therefrom by publishers, printers, etc., are given in this book. In many cases comparisons are made with the similar figures for the years 1938 and 1947. Money spent on press advertising is shown to have exceeded that spent on all other forms of advertising put together. Tables show how the revenue of over £124 million from advertising is divided between the Press, printers, advertising agents and contractors, the Post Office, etc.

FINANCE AND COMMERCE

Stock markets have turned easier following the £100 million $4\frac{1}{4}$ per cent British Electricity stock operation. The prospect of a 'tap' on this stock for some time to come and of an increase in new issue activity in other directions has reversed the recent firm trend.

Ford's Assets Surveyed

'Unless tax allowances are based upon replacement cost values of assets, industry will progressively become less able to replace its assets from its own resources as it should', says Sir Rowland Smith, the chairman of Ford Motor Company Ltd.

A detailed survey of the fixed assets was carried out during the year by the company's officials to assess their estimated life and replacement cost. It was found that the accumulated amount set aside for depreciation and obsolescence at January 1st, 1951, was £2,461,141 in excess of that reasonably necessary for the purpose. The amount has been transferred to reserve for replacement of fixed assets where with the opening balance of £6,396,484 and £$2\frac{3}{4}$ million transferred from profit and loss account, a closing balance of £11,607,625 is shown.

An amount of £1,302,740 has been charged in the profit and loss account for depreciation and obsolescence as the sum considered to be appropriate in respect of the year's usage, based on original cost and the revised rates adopted as the result of the survey.

Fixed assets of the company itself now stand in the books at £15,688,592 of which £4,487,204 is for

HASTINGS & EAST SUSSEX BUILDING SOCIETY

1951	
NUMBER OF SHAREHOLDERS	6,966
NUMBER OF DEPOSITORS	571
NUMBER OF BORROWERS	4,214

Dr. **1. Shares Account** Cr.

	£	s	d		£	s	d
Shares realized, withdrawn and interest	508,317	5	7	Subscriptions	444,139	17	5
Due to shareholders at end of year	3,341,520	13	7	Interest	74,997	8	10
				Due to Shareholders at beginning of year	3,330,700	12	11
	£3,849,837	19	2		£3,849,837	19	2

2. Deposits and Loans Account

	£	s	d		£	s	d
Deposits and Loans (other than loans from Bank) and interest repaid or withdrawn	181,126	14	2	Deposits and Loans (other than loans from Bank) ..	93,624	13	3
Due on Deposits and Loans (other than loans from Bank) at end of year	853,736	3	8	Interest	17,274	14	8
				Due on Deposits and Loans (other than loans from Bank) at beginning of year	923,963	9	11
	£1,034,862	17	10		£1,034,862	17	10

3. Mortgages Account

	£	s	d		£	s	d
Advanced on Mortgage:				Repayment of Advances and Interest	854,925	5	3
On 667 Mortgages where the advance agreed to will not exceed £2,000	501,663	15	9	Insurance premiums	11,993	6	7
On 34 Mortgages where the advance agreed to will exceed £2,000	81,783	12	0	Income from properties in possession	586	9	6
Total	583,447	7	9				
Payments on Borrowers' accounts	4,976	16	4				
Interest from Borrowers	172,216	0	2				
Insurance premiums	11,993	6	7				
Outgoings on properties in possession	282	11	4				
Due on Mortgages at beginning of year	4,088,162	11	0	Due on Mortgages at end of year	3,993,573	11	0
	£4,861,078	13	2		£4,861,078	13	2

4. Investments Account

Dr.	£ s d		Cr. £ s d
Investments made:		Interest and Dividends received	6,761 6 8
British Government Securities	82,722 15 0		
Colonial and Dominion Securities	3,000 0 0		
Interest and Dividends as per Account No. 5	6,948 0 10		
Balance at beginning of year	221,498 14 11	Balance at end of year	307,408 4 1
	£314,169 10 9		£314,169 10 9

5. Profit and Loss Account

Expenditure	£ s d	Income	£ s d
Management Expenses:		Interest from Borrowers	172,216 0 2
Directors' Fees	1,600 0 0	Interest and Dividends from Investments	6,948 0 10
Remuneration of Staff and Auditors	10,462 6 4	Interest on Tax Reserve Certificates	173 17 11
Rates, Insurance, Heat, Light, Cleaning, Repairs, etc.	2,953 7 7	Interest on Bank Deposits	151 19 9
Printing, Stationery and Postages	1,223 16 0	Survey Fees	1,370 8 6
Advertising, Commission and Agency Fees	5,073 12 9	Other Fees and Fines	3,302 13 0
Bank Charges	128 5 4	Mortgage Charges recovered	189 18 4
		Insurance Commission	2,309 3 8
Total Management Expenses	21,441 8 0		
Interest on Deposits and Loans	17,274 14 8		
Income Tax and Profits Tax	55,591 5 1		
Survey Expenses	1,370 8 6		
Balance carried to Account No. 6	90,984 5 11		
	£186,662 2 2		£186,662 2 2

6. Appropriation Account

	£ s d		£ s d
Interest to Shareholders	74,997 8 10	Balance brought forward	10,027 19 10
Investment Reserve	15,000 0 0	Balance from Account No. 5	90,984 5 11
Staff Superannuation Fund	750 0 0		
Balance carried forward	10,264 16 11		
	£101,012 5 9		£101,012 5 9

7. Permanent Reserve

	£ s d		£ s d
Balance at end of year	160,000 0 0	Balance at beginning of year	160,000 0 0
	£160,000 0 0		£160,000 0 0

7a. Investment Reserve

	£ s d		£ s d
		Appropriation from Account No. 6	15,000 0 0
Balance at end of year	25,000 0 0	Balance at beginning of year	10,000 0 0
	£25,000 0 0		£25,000 0 0

7b. Mortgage Reserve

	£ s d		£ s d
Balance at end of year	5,000 0 0	Balance at beginning of year	5,000 0 0
	£5,000 0 0		£5,000 0 0

land and buildings and £11,201,388 for machinery, plant, tools, etc. The directors are now planning to spend some £14 million over the next three years on further working space and equipment.

As a matter of general interest, we reproduce the break-down of the company's income for 1951.

FORD MOTOR COMPANY LIMITED

Disbursement of total income £68,164,000

Per cent		£	£
100	Total income		68,164,000
67	Purchases		45,563,000
12	Wages and salaries less P.A.Y.E. Tax		8,522,000
5	Other Expenses		3,300,000
2	Employees' benefits excluding State schemes		1,142,000
9	Taxation		
	P.A.Y.E. tax	729,000	
	Tax on dividends	704,000	
	Tax on profit	4,427,000	
			5,860,000
1	Net dividends		779,000
4	Profit ploughed back		2,998,000
100			£68,164,000

Building Society Accounts

We reproduce this week the Centenary accounts of the Hastings and East Sussex Building Society. It is a form of account with which all accountants must be familiar yet with which, on the whole, only the minority have direct experience. A building society's accounts therefore make a useful addition to the series of reprints in *The Accountant*, and the Centenary accounts of this society an appropriate subject.

A recent estimate of Building Society expansion in 1951 made by the Building Societies Association put the movement's total assets at £1,359 million. In the past two years it estimated that direct investment in the movement has increased by fully £208 million.

Money Market

Treasury Bill applications totalled £296,275,000 on April 25th, and by raising the bid to £99 8*s* 5*d* the market received 63 per cent of requirements. The average rate was £2 6*s* 4·20*d* per cent.

HASTINGS AND EAST SUSSEX BUILDING SOCIETY

Balance Sheet at December 31st, 1951

LIABILITIES

	£ s d	£ s d
Due to Holders of various classes of Shares, including Interest, viz.:		
Subscription Shares	18,210 17 5	
Fully-paid Shares	3,323,309 16 2	
Total as per Account No. 1		3,341,520 13 7
Due to Creditors for Deposits and Loans:		
Deposits and Loans (other than loans from Bank):		
Repayable at 1 month's notice	239,885 1 10	
" " 3 months' "	277,340 1 6	
" " 6 " "	197,850 0 0	
Exceeding 6 months' notice	138,661 0 4	
Total as per Account No. 2		853,736 3 8
Other Liabilities:		
Sundry Creditors		3,942 2 6
Provisions:		
Income Tax	35,000 0 0	
Profits Tax	9,700 0 0	
Total		44,700 0 0
Reserves:		
Permanent Reserve	160,000 0 0	
Investment Reserve	25,000 0 0	
Mortgage Interest Reserve	5,000 0 0	
Total	190,000 0 0	
Balance carried forward (as per Account No. 6)	10,264 16 11	
Total		200,264 16 11
Total		£4,444,163 16 8

Note.—Income Tax Post-war Credits to which the Society will be entitled are not taken into account.

CERTIFICATE OF AUDITORS

The undersigned having examined the foregoing Annual Account and Statement, hereby certify that it is correct, duly vouched, and in accordance with law. We further certify that we have at this audit actually inspected the Mortgage Deeds in respect of each of the properties in mortgage to the Society and have verified the other securities belonging to the Society referred to in the foregoing Account and Statement, with the exception of certain of the Deeds relating to Mortgages redeemed subsequent to December the 31st, 1951, in which cases we have seen that the Society has received the redemption monies, and with the exception of 149 Mortgage Deeds held by Approved Solicitors for Registration and in the normal course of business.

PATRICK JOY,
Chartered Accountant,
20 Havelock Road,
Hastings.

W. E. W. MITCHELL,
Chartered Accountant,
8 Wellington Square,
Hastings.

February 8th, 1952

ASSETS

	£ s d
Balance due on outstanding Mortgage Securities (not including prospective Interest), viz.:	
Mortgages from members where the repayments are not upwards of 12 months in arrear and the property has not been upwards of 12 months in possession of the Society:	
On 2,298 Mortgages where the debt does not exceed £500	470,545 7 7
On 886 Mortgages where the debt exceeds £500 and does not exceed £1,000	732,122 13 5
On 1,645 Mortgages where the debt exceeds £1,000 and does not exceed £3,000	2,508,321 10 3
On 31 Mortgages where the debt exceeds £3,000 and does not exceed £5,000	114,603 13 7
On 15 Mortgages where the debt exceeds £5,000	124,770 18 0
Total	3,950,364 2 10
On 10 Mortgages on property of which the Society has been upwards of 12 months in possession (present amount included in Assets)	5,026 9 5
On 25 Mortgages where the repayments are upwards of 12 months in arrear and the property has not been upwards of 12 months in possession of the Society (present debt)	38,182 19 7
Total number of Mortgages 4,910.	
Total as per Account No. 3	3,993,573 11 10

Investments:	Market Value at this date £ s d	Value in Society's Books £ s d	£ s d
British Government Securities	257,268 15 0	285,889 6 11	
Colonial and Dominion Securities	13,400 10 0	15,378 0 0	
Trustee Savings Bank	6,140 17 2	6,140 17 2	
Total as per Account No. 4		307,408 4 1	
Tax Reserve Certificates and Interest accrued		25,450 13 1	
			332,858 17 2
Other Assets:			
Office premises			16,321 14 0
Cash at Bank and in hand			101,409 13 8
Total			£4,444,163 16 8

CURRENT LAW

Insurance: Foreign Jurisdiction

The Court of Appeal found for the plaintiffs in *MacLeod, Ross & Co Ltd v. Compagnie d'Assurance L'Helvetia of St Gall* (*Law Journal*, February 1st, 1952). The plaintiffs had bought tinned meat from continental sellers and, finding it bad on arrival, claimed against the insurers on two certificates of insurance issued by the defendants pursuant to an open cover. The two certificates related to the open cover and contained some of its conditions, but not the condition that any claim must be settled by the Tribunal of Commerce at the place of the signing of the contract. The defendants contended that the plaintiffs could not have the dispute decided by the English Courts.

The Court of Appeal (Denning, L.J.) held that the certificates were separate contracts from the open cover, for they contained cover against certain risks not included in the open cover. By inference, the stipulation as to the bringing of claims abroad was not binding on the holders of the certificates.

Company Minority

Five shareholders of a private company petitioned the Court under Section 210 of the Companies Act, 1948, that the company be wound up on the ground that its affairs were being conducted in an oppressive manner, and that their shares be bought by the company.

The Court held that the oppression visualized by the section meant oppression of members as such. In this case, the applicants' grievance was that they (two of them) had lost their positions with the company. The petition was refused. (*Elder & Others v. Elder & Watson Ltd*) (*Law Journal*, February 15th, 1952.)

Gifts Free of Death Duties

A testatrix left a house to trustees, the net income to go to her niece for life and thereafter to the testatrix's son absolutely. She further provided that

> 'all devises given by this will or any codicil hereto (except the gift of residue) shall be enjoyed free of death duties'

and gave the residue to her nieces absolutely after debts, funeral and testamentary expenses and death duties were paid.

Vaisey, J., held that there was a strong tendency in favour of the view that a testator only intended to provide for the payment of duties after his death and that the will must contain a clear intention to provide for future duties for this tendency to be rebutted. There was no such expression in the present will and he held that the direction applied to duties payable at death only (*Re Howell; Drury v. Fletcher*) (*Solicitors' Journal*, February 16th, 1952). *Re Shepherd* ([1949] 1 Ch. 116) followed.

Currency Debt: Repayment

The Court of Appeal reversed the decision of Slade, J., in *Cummings v. London Bullion Co Ltd* (*Law Journal*, February 15th, 1952), in which the plaintiff sued for the recovery of $3,200 in respect of a brooch he had bought in England, on the undertaking that if he returned it within a given time the defendants would buy it back at the price he paid for it. He did so and the defendants paid him at the rate of $4·02 to the pound. He claimed against them that the rate of $2·80 to the pound was applicable, the pound having been devalued.

The Court held that as Treasury consent was necessary, the Exchange Control Act, 1947, Section 33 (1), must be regarded as incorporated in the contract, and the debt became payable on September 29th, 1949, when the defendants obtained permission to buy the dollars. Therefore, the rate of exchange on that day was the rate applicable.

Insurance Claim for Negligence

In *United Mills Agencies Ltd v. R. E. Harvey Bray & Co* (*Solicitors' Journal*, February 23rd, 1952), McNair, J., found for the brokers in an action brought by the plaintiffs alleging negligence on the part of the brokers in respect of an insurance effected for the plaintiffs. The plaintiffs' normal insurance was an open marine cover containing a special clause covering goods in packers' warehouses. This expired in February 1951 and negotiations were in hand with a fresh firm of brokers, the defendants, which resulted in the issue of a policy providing open cover subject to the Institute 'all risks' clauses. The special clause was not included and, as a result of fire, the plaintiffs suffered a loss.

McNair, J., held that there was no negligence, the plaintiffs not having given instructions for the packers' warehouse cover. He refused also to admit the plaintiffs' claim that they should have been advised when the insurance was effected, so that the plaintiffs could see that it did not contain all the cover they wanted. And further, he declined to accept the view that the brokers, knowing the plaintiffs' goods to be in the hands of packers, should have provided cover accordingly.

Merger of Simple Contract

In *Barclays Bank Ltd v. Beck and Another* (*Law Times*, March 7th, 1952) the Court of Appeal found in favour of the bank on their claim for repayment of an overdraft accorded to the defendants. The latter, farmers, in November 1949, executed an agricultural charge in favour of the bank, under Section 5 (1) of the Agricultural Credits Act, 1948, to secure all moneys then owing or thereafter to become owing to the bank. In 1950 the debtors sold a property, paid the greater part of the sum owing by way of overdraft; and the charge was discharged. On a claim for the balance,

the defendants argued that the simple contract had become merged in the specialty, which had been discharged.

The Court of Appeal held that this was so only if it was the intention of the parties. Here there was no evidence of such an intention.

Authority of Company Director

Without authority, a director of a company purported to bind the company by entering into an agreement with the agent of another firm. The agent had no knowledge of the company's articles and accordingly did not rely on a provision which authorized the board to delegate their powers to a committee, which might be a committee of one.

Slade, J., held that a person with no knowledge of the articles could not rely on them as conferring ostensible or apparent authority, which latter, therefore, he could not set up. Thus the company could establish that there was no such authority and could refuse to be bound by the contract. (*Rama Corporation Ltd v. Proved Tin and General Investments Ltd.*) (*Law Times*, March 7th, 1952.)

Act of Bankruptcy

The Court of Appeal (in *Re a Debtor (No. 360 of 1951); ex parte the Debtor v. National Provincial Bank Ltd and Another*) (*Law Times*, March 7th, 1952) reversed the decision of Mr Registrar Parton and rescinded his receiving order. The debtor, an American citizen, had lived in England for some years and had incurred certain debts, among them liability by way of guarantee of loans made by the bank, which, being unable to recover, sought for and obtained a receiving order on the ground that the debtor had committed an act of bankruptcy by remaining out of the country with the intention of avoiding his creditors.

Jenkins, L.J., in a written judgment, was of the view that far from there being evidence of such intent, payments the debtor had made were cogent evidence of an intention to pay his creditors as and when he could; and his lordship saw no reason to doubt the genuineness of the debtor's belief that he could best raise funds in America.

Time for Opening Documentary Credit

The decision of McNair, J., in *Pavia & Co, S.P.A. v. Thurmann-Nielsen*, was briefly reported in *The Accountant* for December 29th, 1951. The Court of Appeal have now confirmed the decision to the effect that where there is no express stipulation a credit must be opened at the beginning of the shipment period, and not when the sellers are ready to ship. Thus the buyers were liable in damages to the sellers for delay. (*Law Times*, March 7th, 1952.)

Sale of Goods: Objection to Packing

A contract for the sale of rubber provided that if the quality was found inferior, the buyer should accept the rubber 'with a fair allowance', notice to be given within a given period. On arrival the rubber was found to be damaged as the result of defective wrapping and the buyer repudiated after the expiry of the period for making objections.

The Court of Appeal held that the words of the clause referred to did not include damage arising from the defect in wrapping and thus the buyer was not out of time. (*Minister of Materials v. Steel Bros & Co Ltd.*) (*Law Times*, March 14th, 1952.)

Tenancy in Common

By his will a testator gave to his two sons certain property

> '(or if sold during my lifetime such balance of the proceeds of such sale as is in my possession at the date of my death) . . . on condition that they agree to pay in equal shares to my wife . . . for the remainder of her life. . . .'

He was survived by his widow and two sons. Some years later one son died and the question arose whether the gift created a joint tenancy or a tenancy in common.

Wynn-Parry, J., held that in view of the condition attached, the gift created a tenancy in common (*Kew v. Rouse* ((1865) 1 Vern. 353 applied). (*Re North (decd.), North v. Cusden*)) (*Law Journal*, March 14th, 1952.)

Promissory Notes

The plaintiffs in *Arab Bank Ltd v. Ross* were holders of promissory notes made by the defendant, which the latter had dishonoured on the ground that the consideration for which the notes were given had failed. The notes were payable to 'Fathi and Faysal Nabulsy Co or order' and were endorsed 'Fathi & Faysal Nabulsy'. McNair, J., had held that the notes were complete and regular on the face of them and gave judgment for the plaintiffs as holders in due course.

The Court of Appeal have not accepted this point of view. They decided that the notes were not complete and regular and that the plaintiffs were accordingly not holders in due course. They urged, however, that the plaintiffs were holders for value and as no defect of title had been proved by the defendant, he was liable on the notes. (*Law Times*, March 21st, 1952.)

Conditional Gift in Will

A testatrix bequeathed estate on the condition that every person entitled should

> 'take up permanent residence in England and in default of continuous compliance with this condition or in case of subsequent discontinuance',

should forfeit the gift. Certain beneficiaries were resident in the U.S.A. The Court was asked to say whether the condition was effective.

Roxburgh, J., held that it was. He thought that the phrase was plain and precise and was thus valid. (*Re Gape; Verey v. Gape.*) (*Solicitors' Journal*, March 22nd, 1952.)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Excess Profits Levy

SIR, – Replying to the letter, published in your issue of April 26th, by Mr J. M. Jessiman, where he affirms that, by allowing the excess profits levy coming into effect as from January 1st, 1952, to be based on profits earned during the years 1947, 1948 and 1949, the Chancellor is dealing with two different paper pounds, and that 1952 profits must perforce be 3·17 per cent less than the 1947–49 average, may we suggest that when the 1947–49 basis is computed, then these 1947–49 paper pounds will have to be converted to 1952 paper pounds before a logical basis can be established?

Further, in taking Canadian dollars as a yard-stick in this argument, would not Mr J. M. Jessiman be better advised to use American dollars since that was the currency against which the pound was devalued in September 1949 and to which it still remains pegged at $2.80 per £1 sterling?

Actually, therefore, we have a difference of $1.20 or 8*s* 8½*d* between the two paper pounds referred to in this 1947–49 period and every 1947–49 £1 profit needs to be written up by 8*s* 8½*d* in order to arrive at that 1952 figure above which E.P.L. will become payable.

Yours truly,
W. A. EWENS.
MACKINTOSH & PARTNERS (LONDON) LTD.
London, EC4.

Medical Practitioners' Houses

SIR, – With reference to the letter from 'Sinbad' in your issue of April 5th. Up to three or four years ago a doctor client, whose surgery forms part of his private house, was in receipt of 50 per cent of the rent (or net annual value) and rates and water rates as a practice expense. The Inspector then 'made a discovery' and claimed that the allowance should be 25 per cent, or at best not more than 1/3rd. After a great deal of resistance, we managed to reach agreement at 40 per cent, which is now the regular allowance in respect of these items.

In respect of the light and heat, our client was in receipt of allowances ranging from 50 per cent for coal and coke to 33⅓ per cent for electricity and gas. Here again the Inspector 'discovered' that the allowances were excessive, and proposed 20 per cent. We were unable to raise this figure to more than 25 per cent, which is now the recognized allowance. We feel that this allowance adequately covers the use of light and heat which can be attributed to the practice.

With regard to wages, those which are applicable directly to the practice, such as a cleaner for the surgery, are allowed in full. Those which are applicable to both private and practice, such as a maid who answers the door and takes telephone calls from time to time, are allowed to the extent of 50 per cent. With regard to the gardener, we had to go to the General Commissioners, who decided that only that part of the wages paid to the gardener which was in respect of keeping the front of the premises tidy could be allowed, and this was assessed at 10*s* per week; in addition, if the gardener keeps the doctor's car clean, that is also an allowable charge and we think that about 10*s* a week is appropriate.

We trust that this will be of some assistance to your correspondent.

Yours faithfully,
ARLANE.

Auditors: Change in Partnership

SIR, – I would like some clarification of the position regarding partnerships generally, but with specific application to accountants in partnership.

In England, a firm, except for certain specific purposes, is not deemed to be a legal entity. If a partnership is appointed as auditors and there is subsequently a change in the partners, from a strictly legal point of view, is the appointment automatically terminated by that change and should a new appointment be made?

It appears that this probably is the legal position, but as a matter of convenience it is frequently ignored and the position rectified by acceptance of the change.

Your readers' views on this matter would be appreciated.

Yours faithfully,
C. A. R.

[Subject to the precise terms of the resolution appointing the partnership, the position would be that the individuals constituting the partnership at the date of the appointment, and they alone, would continue to be the auditors notwithstanding any change in the partnership. – Editor.]

Elderly Professional Men

SIR, – Many articles – some well thought out – have been written about the position created by an ageing population but few, if any, have paid special attention to professional men.

An actuary, on superannuation from his employment, may perhaps be forgiven for intruding into the journal of a sister profession to express briefly some thoughts which have occurred to him in taking stock of his own position and of the extent to which this may be representative of that of others.

Whether or not a professional man, if he remains fit, is at his zenith between the ages of 60 and 70, the fact remains that if he is in private practice and continues to dominate the affairs of his firm, this cannot fail to restrict the opportunities of a younger generation to exercise their influence upon the

destinies of the firm in a way in which they are entitled to do. Such an argument is difficult to refute. What is the solution?

In a family firm the answer may be clear. The younger generation should be left free to direct policy and, in an ideal world, would seek the views of the older generation who, having given their advice, would leave the younger generation to make final decisions in the light not only of this advice, but also having regard to the promptings of their own intuitions regarding what is the best future interest of the firm. In such a case, a father's natural regard for the welfare of his sons and their regard for him should make this practicable.

But what is the position in a firm differently situated? No doubt similar considerations should apply and be paramount, but their application would involve more severe self-discipline on the part of all concerned and, at times, considerable practical difficulties – moreover, failure to find a good solution might lead one side or the other to seek some form of association with another firm.

Were the older generation to take this course, and be given facilities by another firm in the same profession to place at the disposal of the public, in a consultant capacity, the fruits of their experience, such an arrangement might give rise to difficulties which would not occur were the consultant a member of a different but complementary profession, for example, an actuary. An experiment on these lines would have to recognize the possibility of failure and also be designed to provide an easy termination in such an event.

There are actuaries who, on retirement from their former employment, seek to maintain their interest in current affairs and to use the training and experience which they have acquired in some useful way. To resume private practice is an obvious course, but to set up an independent office, even with no more than a secretary, probably means an encroachment upon capital which may, or may not, be recouped later.

An alternative, if feasible, would be an amicable arrangement, the essence of which would be, on mutually agreeable terms, for the display of the actuary's plate at the offices of the accountant and the part-time use of a room and of the services of a secretary able and willing to provide facilities for correspondence, to take telephone messages and to forward letters and for the accountant and the actuary each to exercise his own profession. Should such an experiment fail, there would be little loss to either party. Should it succeed, the potentialities might be considerable and the idea might be developed and extended to the advantage of two professions, each having its own but different part to play in a changing world.

The foregoing has been written from the point of view of an actuary and there is little scope for reciprocity owing to the small number of firms of consulting actuaries. For the elderly accountant it would therefore be necessary to seek hospitality in most cases from a profession more comparable in size with his own – possibly from lawyers.

Yours faithfully,

AN ACTUARY.

Creditors' Voluntary Liquidation

SIR, – A director of a private limited company which is in creditors' voluntary liquidation claims treatment as a preferential creditor for four months' remuneration under Section 319 of the Companies Act, 1948. For several years prior to liquidation he drew varying amounts as salary which amounts were voted by the company at each annual general meeting retrospectively. During the period prior to liquidation the director drew for ten months at the rate of £10 per week, and nothing for the next four months in view of the company's financial position. No minute or contract exists covering the last period of fourteen months. Can the liquidator:

(*a*) admit the director as a preferential creditor for four months at £10 per week;

(*b*) reject the claim;

(*c*) reject the claim and demand repayment of ten months' drawings at £10 per week on the ground that the payments have not been authorized?

The company's articles adopt Table A to the 1929 Act.

Yours faithfully,

LIQUIDATOR.

What Do We Expect from Economists? or Justice and the Assessment of Profit

SIR, – Mr H. A. Briscoe's stimulating article in your issue of April 26th raises many interesting points, and I understand his main conclusion to be that a system of accounting that allows for the maintenance of a business physically may be a product of intelligence but not of justice, for it tends to privilege proprietors. Hence he argues for historical accounting.

Now a system of accounts that allows for the physical maintenance of a business tends, in a period of rising prices, to show smaller profits than the historical method, calling for greater sums to be ploughed back, and leaving lesser sums for distribution. The converse is true when prices fall. The results then are that dividends are more even, the physical size of a business is maintained, and its value tends to fluctuate more directly with the level of prices.

Consider these three results:

First, who would regret the passing of erratic dividend curves?

Second, as to size, who gains from a diminution that can so readily follow the historical method of assessing profit? Not the employees – including for this purpose the directors – for they may suffer loss of employment; not the consumer, for either production must fall or costs increase through servicing additional capital; and not the suppliers, whose

market will diminish. The Inland Revenue may gain temporarily. All these parties then, except the Inland Revenue, would probably be better served by a recognition of profit only after the business has been physically maintained.

Third, are the proprietors privileged if the value of a business tends to fluctuate directly with the general level of prices? Property may take various forms, e.g. land, goods, bonds, money or shares. A man must choose which form of property he will own, but he has a right to the thing he owns regardless of its value. With money or bonds he has a right to his nominal amount, with land to his acreage, with goods to his goods, and with shares to the proportion of the company he has bought, e.g. one-quarter of a glove factory of a certain size, not to a sum of money equal to one-quarter of the original nominal capital. Is the shareholder hereby any more privileged than the man who bought his furniture at low prices before the war? The diversity of riches is not increased in real terms, and it is in a real world that we live. It is true that the smallest savings cannot easily be invested in shares, but every attempt is made by the Stock Exchange to cater for the small investor.

I suggest, therefore, not that historical accounting is wrong and some form of replacement accounting right, but that an attempt must be made to assess both money profit and physical profit before fruitful negotiation can take place between interested parties, and that the creation of full replacement reserves is not necessarily unjust.

Yours faithfully,

Nottingham. ERIC S. POYSER.

SIR, – May an economics graduate make two points about Mr Briscoe's article in your issue of April 26th?

First, there is perhaps a tendency to forget that fair shares in the cake should not be our sole preoccupation. We must not entirely forget to look after the size of the cake, which depends largely on the productive capital of industry.

Secondly, is it not wrong to assume that the economic argument for the new accounting principles necessarily involves privilege for the equity shareholder? Economics must, it is true, insist that no business has made a profit unless it has a surplus after replacing its assets in real terms. This means that the old system of accounting tends to overstate profits and to encourage the distribution of excessive dividends in times of rising prices. As for profits tax, it means that such tax is sometimes paid out of 'real' losses, but it does not necessarily mean that the total burden of profits tax is too high. It is possible that the rate of profits tax could be increased upon the adoption of the new principle of accounting, thus redistributing its incidence without altering its size, which should be determined by an entirely different set of considerations.

Yours faithfully,

P. H. A. KENYON.

Ashford Common, Middlesex.

Keeping up to date in Argentina

SIR, – Perhaps it might be of interest to you and to some of the subscribers to your valuable publication to hear from a reader thousands of miles away from Drapers' Gardens.

To those of us who reside either temporarily or permanently in such distant lands as the Argentine Republic, from where this comes to you, the reading of periodicals such as yours enables us to keep abreast of what I like to call Anglo-Saxon thinking on matters topical.

We find the reading of technical journals and magazines published in Great Britain and the United States of America a very valuable means of keeping io touch with developments and with the thoughts to which such developments give rise.

Let me assure you, Mr Editor, that this reader at any rate, has found your pages to have been filled of late with some excellent reading matter; matter that is not only interesting and instructive but thought-provoking as well.

There is one particular article to which I would expressly like to refer. This appeared in your issue dated November 24th, 1951, and was the paper read by Mr E. G. Turner, M.C., F.C.A., at Torquay last October during the twentieth autumnal meeting of The Institute of Chartered Accountants in England and Wales. This paper was entitled 'The effect of taxation upon industry and the individual'.

What struck me most forcibly, when reading this most interesting paper, was how aptly much of what Mr Turner had to say at Torquay could be applied to the state of affairs in this young but pushing country. Taxation, in several forms, is taking its toll here just as it is doing at what we of British descent out here call and think of as 'home'.

Yours faithfully,

Buenos Aires. G. MACKERN.

Road Hauliers' Compensation for Cessation

SIR, – We wonder whether any of your readers have had experience of agreeing profits of a haulage business for compensation purposes in circumstances where motor servicing and repairs was done in addition to the haulage business, but no separate accounts were kept. The problem is to arrive at the amounts for fuel consumption and spare parts, repairs, etc., for the haulage vehicles separately from the amounts for purchases for re-sale. The only practicable basis seems to be to take a percentage of the separate income of the haulage business, which income has been always recorded apart from the income of the motor servicing and repairs side of the business. The Commission appear to be taking the view that a proportion as high as 35 per cent of the gross income of the haulage business should be considered as representing the cost of fuel, repairs and servicing applicable to that side of the business.

Yours faithfully,

London, EC2. CREW, TURNBULL & CO.

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS

REPORT OF THE COUNCIL FOR 1951

The sixty-seventh annual report of the Council and accounts for the year 1951 will be presented at the sixty-seventh annual general meeting of the Society, to be held at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, WC2, on Wednesday, May 21st, 1952, at 2.30 p.m. We reproduce below extracts from the report:

His Late Majesty King George VI

An address was presented to Her Majesty the Queen expressing the profound grief and sympathy of members of the Society upon the death of His Majesty King George VI. The address concluded with an affirmation of the devoted loyalty of Incorporated Accountants to Her Royal Person upon her accession to the throne and with a prayer that Her Majesty might long be spared to reign in peace and happiness.

In addition a message of condolence was sent to Her Majesty Queen Elizabeth, The Queen Mother.

President and Vice-President

At a meeting of the Council held on Wednesday, May 23rd, 1951, Mr C. Percy Barrowcliff, F.S.A.A. (Middlesbrough), and Mr Bertram Nelson, F.S.A.A. (Liverpool), were elected President and Vice-President respectively for the ensuing year.

New Honorary Member of the Society

Mr Walter Holman was appointed an honorary member of the Society on January 23rd, 1952, in recognition of his outstanding services to the Society. Mr Holman was President of the Society from 1937 to 1939.

Membership

	Fellows	Associates	Hon. Members	Total
As at December 31st, 1949	1,890	6,604	2	8,496
As at December 31st, 1950	1,936	6,850	1	8,787
Add				
New Members and Readmissions	2	533		535
Transferred from Associateship	81			81
	2,019	7,383	1	9,403
Deduct				
Transferred to Fellowship		81		81
Resignations, deaths and other causes	51	67		118
As at December 31st, 1951	1,968	7,235	1	9,204
Members in practice	1,546	1,749		3,295
Members not in practice	422	5,486	1	5,909
	1,968	7,235	1	9,204

Accounting Implications of Changing Money Values

The report of the Committee on the Taxation of Trading Profits (Cmd. 8189) asserts that the theoretical view which requires 'that a proper system of computing profits must necessarily take into account changes in the value of money' is a view which 'is certainly not generally accepted by the majority of accountancy opinion'.

Accounting practices as now applied to the periodic measurement of business income were conceived in a period of relative price-level stability. In the past decade depreciation in the value of money has called into question with gathering momentum the validity of some of these practices and has reached a point which compels their re-examination. Accordingly, the Council set up a representative committee in October 1951 to re-examine the theoretical view to which the Committee on the Taxation of Trading Profits refers with the object of making recommendations acceptable both to the business community and to the accountancy profession.

Royal Commission on the Taxation of Profits and Income

The Royal Commission on the Taxation of Profits and Income invited the submission of evidence in two parts. The first part was devoted to general social and economic questions, and the second part to specific and more detailed issues. The Society submitted memoranda on both parts and the Council acknowledges the valuable assistance given by the Taxation Committee of the Incorporated Accountants Research Committee. Extracts from the memorandum on the first part were reproduced in the October 1951 issue of *Accountancy*. The second memorandum will be published shortly.[1]

During 1951 some public sessions of the Royal Commission were held at Incorporated Accountants' Hall.

Excess Profits Levy

Shortly after the announcement of Her Majesty's Government to impose a form of excess profits tax, the Chancellor of the Exchequer invited the Society to submit a memorandum on the subject. The time available was very short and opportunities for consultation were limited. The memorandum,[2] for which Mr A. Stuart Allen, F.S.A.A., was mainly responsible, was reproduced in the February 1952 issue of *Accountancy*. The Council has expressed its special appreciation to Mr Allen.

Directors' Emoluments

As a result of representations to the Society by the Chartered Institute of Secretaries, the Council made a recommendation to members on the duties of auditors as regards directors' emoluments under the Companies Act, 1948. A copy of the recommendation, and of the joint opinion of Mr Gerald Upjohn, K.C. (now Mr Justice Upjohn), and Mr J. W. Brunyate, on which it is based, is enclosed with this report.[3]

Co-ordination

In his presidential address at the annual meeting on May 23rd, 1951, Mr A. Stuart Allen, F.S.A.A., explained with regret why the Co-ordinating Committee was unable to submit agreed proposals for the regulation of the accountancy profession on the general lines envisaged during recent years. It was decided, however, that the Co-ordinating Committee should remain in being to explore the possibility of securing some measure of regulation in the limited field of the audit of company accounts. The Co-ordinating Committee has now agreed to recommend to the Board of Trade that the requirements of the Companies Act, 1948, should be strengthened as regards the qualification of persons for appointment as auditors and that the application of Section 161 of the Act should be extended to all companies.

Accountants' Joint Parliamentary Committee

The Accountants' Joint Parliamentary Committee continued its task of examining all parliamentary matters relating to the qualification and status of auditors. In legislation involving the expenditure of public funds and the appointment of independent auditors, Parliament has continued to adopt a form of audit clause which in effect prescribes

[1] See *The Accountant* dated April 12th, 1952, leading article at page 375.

[2] See *The Accountant* dated February 2nd, 1952, leading article at page 104.

[3] Not reproduced. See *The Accountant* dated March 15th, 1952, at pages 268 and 286.

membership of one or more of the bodies represented on the Joint Committee as the qualification essential for appointment as auditor.

Application of Statistical Techniques to Accounting Data

For some time it has been felt by some members of the profession that mathematical and statistical techniques have never been thoroughly examined in relation to their application to accounts. With the development of management accounting it is plainly desirable that a thorough investigation of this subject should be undertaken. It is, therefore, a matter of pleasure to record that the Council of the Royal Statistical Society has accepted the invitation of the Council to appoint representatives to sit on a joint committee to study statistical and mathematical techniques in their practical application to accounting data. It is hoped that in due time it will be possible to produce a joint report detailing a number of practical recommendations. Dr D. Heron, a Past-President of the Royal Statistical Society, is the chairman of this joint committee. The Royal Statistical Society is also represented by Mr J. R. N. Stone, C.B.E., and Mr A. W. Swan. Mr F. A. A. Menzler, C.B.E., is a member of this committee representing the Institute of Actuaries. The members of the Society on this joint committee are Mr F. Sewell Bray, F.C.A., F.S.A.A., Mr L. C. Hawkins, F.S.A.A., and Mr Bertram Nelson, F.S.A.A.[1]

Changes in Appointment as Auditor or Professional Accountant

In January 1952 the Council issued the following pronouncement:

> 'It is the duty of any member of the Society, before accepting nomination for appointment as auditor or agreeing to act as professional accountant to a company, partnership, private owner of a business or individual, to communicate with the previous or existing auditor or professional accountant.'

Register of Management and Industrial Consultants

The Council has decided that permission cannot be given to a member of the Society for the name of any firm or company of which he is a partner or director to be included in the Register of Management and Industrial Consultants maintained by the British Institute of Management if that firm or company undertakes in the course of its duties any work which comes within the field of public accountancy.

Sixth International Congress on Accounting

The Sixth International Congress on Accounting is to be held in London from June 16th to 20th, 1952. Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., and Mr C. Percy Barrowcliff, F.S.A.A., have been appointed President and Vice-President of the Congress respectively. Mr A. Stuart Allen, F.S.A.A., is Vice-Chairman of the Congress Council, and Mr Bertram Nelson, F.S.A.A., is Chairman of the Papers and Publications Committee.

Mr Barrowcliff will submit a paper on 'Fluctuating price levels in relation to accounts' at the Congress meeting to be held in the Royal Festival Hall on Tuesday morning, June 17th, 1952.

Netherlands Institute of Accountants

Mr Bertram Nelson, F.S.A.A., represented the Society at the annual conference of the Netherlands Institute of Accountants in Amsterdam on October 6th, 1951.

Branches and District Societies

The annual conference between representatives of branches and district societies and members of the Council was held in London on May 24th, 1951.

All branches and district societies again arranged programmes of lectures and some formed research groups which co-operated in the work of the Incorporated Accountants' Research Committee. In two districts, panels were established to give advice to members on matters of professional practice; but most of the work done was in the field of professional education of students. Week-end residential courses for Intermediate and Final candidates were organized by the district societies of Hull, Liverpool, Manchester and Newcastle upon Tyne. The London Students' Society held two residential courses at Ashridge during March and April 1951 – a course for Intermediate candidates from March 15th to 21st and a course for Final candidates from April 14th to 20th. Further pre-examination courses were held by the London Students' Society at King's College, London, in September 1951.

Upon the resignations of Mr F. P. L. Roberts, F.S.A.A., Mr D. McMichael, F.S.A.A., and Mr C. H. Sutton, F.S.A.A., the Honorary Secretaryships of the West of England, Yorkshire and East Anglia District Societies were accepted by Mr F. C. Smailes, F.S.A.A., Mr B. C. Stead, A.S.A.A., and Mr R. H. Taylor, F.S.A.A., respectively; to all these members and to the members of committees of branches and district societies the Council records its warm thanks.

South African Branches

Liaison with the South African Branches was maintained by the visits to this country of Mr G. W. A. Chubb, A.S.A.A., and Mr R. B. Hogg, M.C., F.S.A.A., Past Chairman and former honorary secretary of the Northern Branch. Mr Chubb was a member of the South African Cricket Team and played with distinction in all the Test matches last summer.

A summary of the report of the South African Branches, which contains a reference to the Public Accountants and Auditors Act, is to be found on page 23.[2]

Canadian Branch

In May 1951 Mr T. H. Nicholson, F.C.A., F.S.A.A., paid a short visit to Toronto and Montreal and met members of the Society's Canadian Branch and of the Canadian Institute of Chartered Accountants. The Council records its gratitude for the cordial welcome and many kindnesses extended to Mr Nicholson.

Australian Branch

The Council had the pleasure of entertaining Sir Edwin Nixon, C.M.G., F.S.A.A., during his visit to London in March 1951. Sir Edwin, who has a distinguished record of public service, was for many years a member of the Council of the Institute of Chartered Accountants in Australia.

Incorporated Accountants' Hall

The restoration of Incorporated Accountants' Hall, which was acquired by the Society in 1928 and was opened by His Late Majesty King George VI (then His Royal Highness The Duke of York), was completed in May 1951, two months short of seven years from the date of the original damage wrought by a flying bomb. The Lord Mayor of London (Alderman Sir Denys Lowson, Bt.) and many other distinguished guests were entertained at receptions given by the President and Council to mark the occasion.

Conference at Dublin

A conference, which happily coincided with the fiftieth anniversary of the Irish Branch, was held in Dublin from June 13th to 16th, 1951.[3] The conference was formally opened by the Lord Mayor of Dublin at a reception at the Mansion House. Papers were submitted by: Senator E. A. McGuire, 'Private enterprise or socialism?'; Mr Bertram Nelson, F.S.A.A., 'Profit and loss'; Mr J. Drennan Radcliffe, F.S.A.A., M.COM.SC., 'The presentation of directors' reports and statements of account'; the late Mr W. L. White, F.S.A.A. (then Vice-President of the Irish Branch), 'Government policy in relation to the economic development in the Republic of Ireland'.

Members and guests were entertained at a banquet given by the Society and at luncheons given by the Irish Branch and by the Incorporated Accountants' District

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[1] See *The Accountant* dated March 1st, 1952, at page 234.

[2] Not reproduced. – Editor.

[3] See *The Accountant* dated June 23rd, 1951, at page 627.

Society of Northern Ireland. Members attending the conference were also entertained at a Government reception given by the Department of External Affairs at Iveagh House.

A report on the conference was published in the July 1951 issue of *Accountancy*. High praise is due to the Council of the Irish Branch, and particularly to the President, Mr Mervyn Bell, F.S.A.A., and to the Honorary Secretary, Mr John Love, F.S.A.A., for arranging such a successful and enjoyable conference.

Course at Caius College, Cambridge

A course held at Caius College, Cambridge, from September 13th to 18th, 1951, was attended by ninety-two members.[1]

Addresses were delivered by Dr R. F. Henderson, Lecturer in Economics in the University of Cambridge, on 'Some effects of inflation', and by Mr Noel Hall, Principal of the Administrative Staff College, on 'Towards a profession of management?'. Mr J. Harold Stewart, C.P.A. (Boston), Past-President of the American Institute of Accountants, paid a special visit to this country to present a paper on 'Auditing procedures in the U.S.A.' The President and Council are deeply indebted to Mr Stewart and look forward to welcoming him and other members of the American Institute when they come to London in 1952 to attend the Sixth International Congress on Accounting. Papers were also submitted by Mr C. V. Best, F.S.A.A., and Mr J. A. Jackson, F.C.A., F.S.A.A., 'Taxation: some practical problems'; Mr F. Sewell Bray, F.C.A., F.S.A.A., 'Accounting principles'; Mr Philip Randall, 'Company law'; and Mr C. E. Sutton, A.S.A.A., 'Productivity, profits and prices'.

The Council records its gratitude to the speakers and to the Master and Fellows of Caius College for the facilities accorded to the Society.

Incorporated Accountants' Research Committee

In addition to co-ordinating the work of other committees, the Executive Committee has been in correspondence with overseas accounting bodies, and a register of international research and accounting studies is being prepared.[2]

Honours and Awards

The Council congratulates the following members whose names appeared in recent Honours Lists:

C.B.

Wild, Ira, C.M.G., O.B.E., A.S.A.A. (London).

C.B.E.

Black, Andrew, A.S.A.A. (London); Stirling, John, B.COM., B.L., F.S.A.A. (Edinburgh).

O.B.E.

Bailey, Charles Vernon, A.S.A.A. (London); Barnes, Alec Nevison, A.S.A.A. (Bristol); Lawman, Eric John, A.S.A.A. (London); Nicholson, Thomas Holme, F.C.A., F.S.A.A. (London); Ralph, Hugh Robert, F.S.A.A. (Stanmore); Sturgess, Albert Berina, A.S.A.A. (London).

M.B.E.

Callender, Henry Joseph, A.S.A.A. (Lichfield).

Examinations

A revised examination syllabus came into operation on November 1st, 1951, and candidates now have the option of taking the Final examination in two parts. Of the 455 candidates who sat for both parts in November, 168 were successful, 34 satisfied the examiners in Part I only, and 90 passed in Part II only. 171 of the 457 candidates who presented themselves for Part I only were successful. The results of the examinations held during the past five years were:

Year	Final Sat	Final Passed %	Intermediate Sat	Intermediate Passed %	Preliminary Sat	Preliminary Passed %
1947	664	224–34	400	165–41	125	45–36
1948	969	399–41	763	295–39	144	59–41
1949	1,060	484–45	1,164	583–50	209	95–45
1950	1,163	435–37	1,356	651–48	235	88–37
1951	1,065	363–34	1,463	647–44	266	86–32

The concession whereby, in certain circumstances, ex-service candidates could obtain exemption from the Preliminary examination was withdrawn on October 1st, 1951.

Irish Jubilee Prize Fund

To commemorate its fiftieth anniversary, the Irish Branch established a prize fund to provide two annual prizes for the Irish candidates who attain the highest standard in the Final and Intermediate examinations. The Council records its appreciation of the generosity of members of the Irish Branch in establishing this fund.

Articled Clerks and Bye-law Candidates

During the year 532 articles of clerkship were registered and 665 bye-law candidates were enrolled. The figures for the past three years are:

	Articled Clerks	Bye-law Candidates	Total New Candidates
1949	538	771	1,309
1950	559	804	1,363
1951	532	665	1,197

Council Resignations

The Council reports with regret the resignation of the following members of the Council and pays tribute to their valuable services:

Mr Walter Holman, F.S.A.A. (London), a member of the Council since 1926 and a Past-President of the Society.

Mr Ralph Macaulay Branson, F.S.A.A. (Leicester), a member of the Council since 1930 and a past Vice-Chairman of the Examination and Membership Committee.

Mr Thomas Harold Platts, F.S.A.A. (Birmingham), a member of the Council since 1940.

Retirement and Election of Members of the Council

The following members of the Council retire and offer themselves for re-election under the provisions of article 49: Mr Edward Baldry, F.S.A.A., Mr Richard Wilson Bartlett, F.S.A.A., Mr Frank Sewell Bray, F.C.A., F.S.A.A., Mr Andrew Brodie, F.S.A.A., Mr Major James Faulks, M.A., F.S.A.A., Mr Wilfred Harcourt Fox, F.S.A.A., Mr Alexander Hannah, F.S.A.A., Mr Leonard Cecil Hawkins, F.S.A.A., Mr Arthur Edward Middleton, F.S.A.A., Mr Bertram Nelson, F.S.A.A., Miss Phyllis Elizabeth Marie Ridgway, B.A., F.S.A.A.

In accordance with the provisions of Article 48, the Council appointed Mr Frederick Vernon Arnold, F.S.A.A. (Brighton), Mr Charles Victor Best, F.S.A.A. (London), and Mr William George Ainge Russell, F.S.A.A. (Birmingham), to fill vacancies on the Council. Resolutions for their election will be submitted to members at the Annual General Meeting in May 1952.

Auditors

Mr James A. Allen, F.S.A.A., and Mr Stanley I. Wallis, F.S.A.A., have notified that they are willing to continue in office as Auditors.

Accounts

The audited accounts of the Society for 1951 are annexed.[3]

C. PERCY BARROWCLIFF, *President.*
BERTRAM NELSON, *Vice-President.*
I. A. F. CRAIG, *Secretary.*

Incorporated Accountants' Hall,
London, WC2. *March 20th, 1952.*

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[1] See *The Accountant* dated September 22nd, 1951, at page 269.

[2] A note on the report for 1951 of the Research Committee was published in *The Accountant* of March 29th, 1952.

[3] Not reproduced. – Editor.

THE INCORPORATED ACCOUNTANTS' BENEVOLENT FUND

FIFTY-NINTH ANNUAL REPORT OF THE TRUSTEES

The fifty-ninth annual report (reproduced below) and accounts of the trustees for the year ended December 31st, 1951, will be presented at the annual meeting of subscribers to be held at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, WC2, at 3.30 p.m. on Wednesday, May 21st, 1952.

The revenue of the fund at £3,471 shows an increase of £283 over that for 1950. There was a considerable and welcome increase in the amount of subscriptions received during 1951, and also in life subscriptions, donations and legacies, which under the rules are added to the capital. The contributions received during the last five years were:

	Subscriptions	Life Subscriptions Donations and Legacies
	£	£
1947	1,428	985
1948	1,824	770
1949	1,970	338
1950	1,984	631
1951	2,346	1,163

The trustees extend their warm thanks to all contributors, and in particular gratefully acknowledge the following gifts and legacies:

	£
George William Chapman, F.S.A.A.	500
Executors of F. W. Buzzacott, decd.	250
Fitton Will Trust	105
Eustace Herbert Raynham, F.S.A.A.	100
South African Western Branch	31
Incorporated Accountants' Lodge	26

The Trustees have endeavoured to deal with all applications as generously as circumstances demanded, but in certain cases a limit was imposed upon the extent of the help that could be afforded by the regulations governing old-age pensions and National Assistance Board grants.

At the end of the year there were thirty beneficiaries. All grants are reviewed annually and the Trustees particularly desire to record their special appreciation of the assistance given by local honorary secretaries and other incorporated accountants in connexion with the applications submitted to the Trustees. Many of those who have found it necessary to approach the fund have good reason to be grateful for the advice which they have received on their problems from members of the Society.

An analysis of the grants made in 1951 is set out overleaf. [Reproduced below. – Editor.] Grants made during the past five years were as follows:

Year	Amount disbursed in grants	No. of Beneficiaries
	£	
1947	2,082	35
1948	2,162	31
1949	2,432	31
1950	3,015	36
1951	2,794	30

It is fitting that the generosity and keen interest in the fund of Mr G. W. Chapman, F.S.A.A. (Leeds), and of the South African Branches should be recognized. Accordingly, the Trustees have pleasure in nominating Mr Chapman and Mr R. B. Hogg, M.C., F.S.A.A. (Johannesburg), as Vice-Presidents of the fund. Resolutions for their election will be submitted at the annual meeting on May 21st, 1952.

Mr James A. Allen, incorporated accountant (London) has notified that he is willing to continue in office as Honorary Auditor, and the Trustees desire to record their warm appreciation of his past services.

Dated this 19th day of March, 1952.

PERCY TOOTHILL, *Chairman.*
R. WILSON BARTLETT
R. M. BRANSON
E. CASSLETON ELLIOTT
WALTER HOLMAN } *Trustees.*
I. A. F. CRAIG, *Hon. Secretary.*

Incorporated Accountants' Hall,
London, WC2.

Particulars of Grants made during the year 1951

	Number of Cases	Total Grants	Amounts previously given in cases where grants were renewed
		£	£
Education and support of children	10	1,104	4,161
Members or former members suffering from infirmity or in straitened circumstances ..	6	373	1,006
Widows and dependants of deceased members	14	1,317	7,140
	30	£2,794	£12,307

GEOGRAPHICAL DISTRIBUTION OF THE CASES

Cheshire	4	Lancashire ..	1	Wales	2
Derbyshire ..	1	London	2	Warwickshire ..	1
Home Counties ..	9	Nottinghamshire	1	Isle of Wight ..	1
Ireland	1	Scotland	1	Yorkshire ..	1
		Sussex	5		

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

FORTY-SEVENTH ANNUAL GENERAL MEETING

The forty-seventh annual general meeting of the Association of Certified and Corporate Accountants was held in the lecture hall of the Chartered Auctioneers and Estate Agents' Institute last Wednesday. The President of the Association, The Rt. Hon. Lord Latham of Hendon, J.P., F.A.C.C.A., F.C.I.S., was in the chair.

Extracts from the report of the Council for 1951 were published in *The Accountant* dated April 19th, 1952, and we give below extracts from the presidential address of Lord Latham.

EXTRACTS FROM PRESIDENTIAL ADDRESS

Of the report of the Council, the President said:

The year under review was one of considerable and, perhaps, unusual activity, accompanied with continuing progress and development. It was a year in which circumstances called for exceptionally comprehensive and technical work on research and on the preparation of memoranda and evidence on social, economic and taxation subjects. Moreover, it was a year of difficult endeavour to reconcile the vital interests of the Association with a changing professional situation. I submit that the report now before you bears witness to the care, experience and assiduity which the Council has brought to bear on the matters with which it has had to deal.

I want, for a moment, to mention some of what I may call matters of domestic interest, namely, those concerning membership, examinations, students and finance.

Our membership continues to show a steady increase and we have now reached the 8,000 mark.

The number of applications to sit the Association's examinations received in the years immediately following the war was abnormal and, as was to be expected, it has since gradually decreased year by year until it can now be said to be approaching the normal.

Last year the number of applications was just over 2,000 – slightly fewer than in the preceding year. It followed that the number of our registered students reached a high figure with a consequential increase in the number sitting the examinations. What is, however, greatly encouraging is the marked improvement in the standard of performance.

Finance

Members will not need to be reminded that the new rates of subscriptions came into operation at the beginning of the year under review – as did an increase in examination fees. The accounts before you clearly show how necessary it was to bring the Association's income into balance with its expenditure. As a result of the higher fees paid the income rose to £54,576. After making all possible economies, the effect of rising cost of goods and services and the extension of the Association's activities, was to raise the expenditure to a new high level, £53,622, leaving a modest favourable balance of £954. In this connexion a word of warning may not be untimely. In the current year, and probably in the years to follow, our expenditure is more likely to increase than decrease because there is no evidence that the rise in prices has reached its peak and also because the Association has various commitments, such as that in connexion with the International Congress and other joint activities which involve additional expenditure of a not inconsiderable order.

Joint Parliamentary Committee

Through the Joint Parliamentary Committee important questions concerning the profession as a whole were dealt with by agreement between the recognized bodies, and joint action taken where action was called for.

This consultation between representatives of our respective bodies has grown so that it now covers all matters which are common to professional life and practice.

By mutual confidence and respect and the avoidance of undue concern for sectional interests, much good work has been done and, I may add, the effect of the profession being able to speak with one voice has greatly increased its influence in official and other spheres.

Co-ordinating Committee

Reference is made in the report to the steps being taken by the Co-ordinating Committee to secure an amendment of the Companies Act in order to remove what the profession regard as some unsatisfactory features, and to establish the standing and status of the profession in industrial and commercial spheres. These steps are actively going forward. I hope that the ball now definitely set rolling will roll far towards satisfying the aspirations that have been a feature of the Association's policy throughout its history. As has been remarked on previous occasions, the promotion of legislation inevitably brings with it objections and practical difficulties. In my opinion it is the duty of the profession – including the Association – to meet and overcome those objections and difficulties. When we look upon what was done by the other professions that have been granted protective legislation we must realize with a full sense of our responsibilities that to falter and hesitate may well defeat the aspirations of a lifetime.

Accounting for Inflation

This brings me to certain professional aspects of the problem of whether replacement cost or historical cost should be the basis of the provision for depreciation of capital assets. I shall not here go into the merits of the issue itself but shall offer some, I hope helpful, comments on how the apprehensions which exist in some accountancy circles could, I think, be satisfactorily met.

The Association has expressed its view on what is one of the most difficult, as it is one of the most immediate, problems facing accountants in the changed conditions of the post-war world. I would like, nevertheless, to examine briefly what appears to me to be the basis of the divergences of opinion which demonstrably exist between professional accountants, not only in this country but also in the United States. It may well be that these divergences are not so deep as they appear. Be that as it may, the problem cannot be allowed to drift: an acceptable solution must be found.

Quite properly, those responsible for the conduct and management of business look to accountants for advice and guidance on this matter, which is of vital importance to them and to the maintenance and renewal of this country's industrial equipment at a time when modern, up-to-date equipment is so essential for greater efficiency and increased production. Business men will display an understandable impatience of accountants if they persist in a too rigid adherence to traditional principles and practices which, however sound and appropriate they were in the conditions of the past, are manifestly not so in the changed economic conditions which now prevail and are likely to prevail for as long as can be foreseen.

In the evidence submitted to the Royal Commission on the Taxation of Profits and Income, the Association has faced this problem, I think, fairly and squarely by advocating a policy which takes proper account of the predominant part that replacement cost should play in fixing the basis of adequate provision for the depreciation of capital assets and the valuation of consumable stocks, and thus in the ascertainment of true profit and the equitable taxation thereon.

No responsible organization of professional accountants would wish to weaken the body of sound accountancy principles which has been built up over the years, and by the test of which a true and fair picture of the results of business operations are laid before the proprietors and the public generally. But a slavish fidelity to past practices which are no longer applicable to actual conditions must fail to give a true and fair picture, which has been, is, and must surely always be, of the essence of the purpose of accounts. In a world of change, accountancy practices cannot remain inflexible and static, independent of time and circumstance.

Having said this, I feel bound to acknowledge the fact that the precise ascertainment of replacement costs of capital equipment from time to time may be a difficult problem. Clearly it should not be arbitrary: still less should it be determined by reference to the measure of net profit otherwise available at the time when depreciation provision is fixed. Indeed, this is one – but not the most important – of the defects of

the practice of an appropriation of profits as distinct from a charge against profits to meet this known increased liability, for then the amount of the provision is in danger of being influenced not so much by reference to the measure of the known liability as by the amount of the profit available and of the other calls upon it for dividends and otherwise. In short, in a good year there may be a disposition to make an ample, or perhaps excessive, appropriation, and in a bad year an insufficient one if, indeed, any at all.

Replacement costs differ as between types of equipment and as between industries and, of course, all of them vary as the general price level moves up or down. Thus the estimate of replacement cost of equipment cannot possess the exactitute of historical cost, for the latter is definitely known – it has been incurred. Moreover, replacement cost will vary with the different dates to which the yearly accounts are made up. It is this fact of the departure from the known and constant to the known but variable which, in certain accountancy circles here and in America, gives rise to doubts and hesitation as to the wisdom of moving away from the basis of historical cost. These are understandable. The practical difficulties of finding a fair and reasonable basis for measuring the proper charge against profit of the actual up-to-date cost of equipment which has been consumed during the year and from year to year are real, but they are not, I submit, insurmountable.

I refuse to believe that a basis of fair ascertainment cannot be found which would be acceptable to industry and to the Inland Revenue, and which would not offend against the established principles of accountancy. Such a basis might well be determined by reference to the changes in the general purchasing power of money as recorded in an official price index applied to particular industries and classes of assets. Changes in specific prices or individual replacement values would not, I think, be a satisfactory or, by and large, a readily acceptable or an easily workable basis. Indices of moving price levels are being increasingly used by business men, as is witnessed by the number of prominent industrial and other undertakings who, as I have said, are subscribing for the Fixed Asset Replacement Price Indices which are now being issued under the joint aegis of the Association and *The Economist* Intelligence Unit. This, it seems to me, is a method of ascertainment which is well worth further exploration. If it should be found to be unsatisfactory – and I can at present see no reason why it should be – then other ways must be sought: as accountants we really cannot just throw up our hands in failure at a problem which it is peculiarly our business to resolve.

In this task of finding a way properly to do what is required, the accountancy profession can make a notable and valuable contribution to the practical solution of this problem, and our respective professional organizations should get together with representatives of industry and commerce, and later with the Inland Revenue, and should work out the details of the construction and application of the moving general price index as a basis for measuring the additional depreciation provision to be made from time to time, in such a way as reasonably to take care of the ultimate increase in cost when capital assets have to be replaced.

The real content of traditional accounting principles and practice could be safeguarded if the added provision made and charged against profit were required to be shown separately and clearly in the accounts, either by way of a profit adjustment account or in some other easily understandable way. As regards the replacement of consumable stock no like difficulties arise: the process is continuous and movements of cost are capable of relatively precise ascertainment.

As I have said, the Association will shortly publish an objective study of the whole problem of accounting in conditions of inflation. This, we trust, may stimulate discussion and the exchange of ideas and thus help towards the solution of a problem which is not only highly complex, but is perhaps one of the most important problems which has confronted our profession, for it involves, let us frankly admit it, a modification of a long-established accountancy practice. Unhappily, there does not exist, at present at all events, a unanimous point of view in the profession itself and until there is such it is hardly likely that the Inland Revenue can be moved to change the present basis of taxation which is, in these respects, a taxation of capital in the guise of a fictional profit.

Let me conclude this part of my address by saying, in your name, that the Association would be very willing to take part in discussions with our kindred professional bodies on the lines I have indicated.

The report and accounts were adopted.

IN PARLIAMENT

Income Tax

Mr BLACK asked the Chancellor of the Exchequer to what extent, under his Regulations, employees whose lunches are provided free by their employers are liable to be assessed to income-tax on the value thereof.

Mr R. A. BUTLER: An employee is not normally chargeable with income-tax in respect of lunches provided free by his employer, but in certain circumstances liability might arise under the special provisions of Chapter II of Part VI, Income Tax Act, 1952, relating to directors and highly-paid employees.

Sir I. FRASER asked the Chancellor of the Exchequer what saving in administrative manpower has resulted from his income-tax changes which have relieved two million people of small incomes from liability to tax.

Mr R. A. BUTLER: The changes do not begin to operate until after June 7th next. In the meantime, all the present staff is required for the necessary work of revising P.A.Y.E. code numbers. That is all I can say at present.

Mr G. LONGDEN asked the Chancellor of the Exchequer if he will introduce legislation to exempt from income-tax the offerings made to incumbents on Easter Sunday.

Mr R. A. BUTLER: I much regret that I cannot see my way to propose legislation relieving Easter offerings from the ordinary operation of the income-tax law.

Hansard, April 22nd, 1952. Written Answers, Col. 17.

Colonial Taxation

Mr Dugdale asked the Secretary of State for the Colonies the rates of income-tax and sur-tax payable in each colony, or, if the figures are not easily available in all of them, in a representative selection of colonies.

Mr Lennox-Boyd: As the reply consists of a long series of figures, I will, with permission, circulate it in the *Official Report*. Following is the reply:

Colony	Tax on Companies in the £	Progressive Rates of Income-tax on Chargeable Income of Individuals	Minimum Allowance	Remarks
	s d		£ *s*	
Far East				
Hong Kong	2 6	6*d* first £312, rising by similar stages to a maximum of 5*s* over £2,812	437 10	
			£	
Federation of Malaya / Singapore ..	6 0	7⅛*d* first £58 increasing up to 4*s* on £5,833	350	
North Borneo ..	6 0			
Sarawak	4 0			
Brunei	4 0			
West Indies				
Barbados	7 6	6*d* first £100 increasing up to 15*s* over £5,000	150	
British Guiana ..	9 0	1*s* 3*d* first £250 increasing up to 12*s* over £2,250	208	
British Honduras ..	7 0	1*s* over £125 increasing up to 7*s* over £4,750 plus sur-tax over £2,500. 2*s*–4*s* over £5,000		
Jamaica	7 6	7*d* first £100 increasing up to 7*s* 6*d* over £850 plus sur-tax over £2,000. 1*s* 3*d*–7*s* 6*d* over £7,000	200	
Trinidad	9 0	4¾*d* first £208 increasing up to 18*s* over £13,750	100	
Antigua .. / Montserrat ..	5 6	6*d* first £100 increasing up to 13*s* 6*d* over £1,500	100	
St Kitts-Nevis ..	6 6	6*d* first £100 increasing up to 15*s* over £4,000		
Virgin Islands ..	5 6			
Dominica	6 0	6*d* first £100 increasing up to 10*s* over £3,000	100	
Grenada	6 0	7·2*d* first £104 increasing up to 10*s* over £3,125	100	
St Lucia	6 6	6*d* first £100 increasing up to 13*s* over £5,000	100	
St Vincent	6 0	7·2*d* first £104 increasing up to 15*s* 7*d* over £3,125	100	
East Africa				
Kenya	5 0	1/6 cents first £400, next £1,200 1/6 cents plus 1/8 cents for every £ in excess of £400. 5*s* over £1,600: sur-tax over £2,000 up to a maximum of 11*s* over £50,000, i.e. 3*d*–9*s* over £8,500 then 5*s*–11*s* over £50,000	200	
Tanganyika	4 0		200	
Uganda	4 0		200	
Zanzibar	4 0		200	
Central Africa				
Nyasaland	7 6	1*s* 3*d* first £200 increasing up to 5*s* over £1,100: sur-tax over £1,500 from 1*s* 3*d*–9*s* 6*d* over £29,500	250	
Northern Rhodesia ..	7 6	2*s* first £500 increasing up to 7*s* 6*d* over £1,750	250	
West Africa				
Gambia	10 3	6*d* first £200 increasing up to 15*s* over £10,000	200	
Gold Coast	9 0	3*d* first £200 increasing up to 15*s* over £10,000	200	
Nigeria	9 0	4½*d* first £200 increasing up to 15*s* over £10,000	200	
Sierra Leone	7 6	6*d* first £400 increasing up to 15*s* over £9,600	300	
Other Colonies				
Aden	7 6	9⅜*d* first £300, increasing up to 15*s* over £15,000	300	
Cyprus	7 6	1*s* first £100 over £250 increasing up to 15*s* over £6,000	300	Increased rates for bachelors
Falkland Islands ..	3 6	1*s* first £100 over £100 increasing up to 3*s* 6*d* over £950	100	Only 14 taxpayers above £2,000 per annum
Fiji	6 3	First £5,000 1*s* 3*d* plus increase by ·012*d* for every £1 up to 6*s* 3*d* over £F5,000 plus sur-tax in excess of £1,000 of 1*s* 3*d* minimum up to a minimum rate of sur-tax of 10*s* on that part of chargeable income over £F30,000.	150	
British Solomon Islands Protectorate	1 3		200	
Gilbert & Ellice Islands	1 3		250	
Tonga	5 0	3*d* first £200 increasing up to 7*s* 6*d* over £2,500	150	
Malta	5 0	2*s* first £200 increasing up to 6*s* 6*d* over £900 plus sur-tax over £2,500 from 2*s*–3*s* 6*d*	240	
Mauritius	8 0	2*s* first £375 increasing up to 15*s* 7*d* over £7,500	225	
Seychelles	*	5*d* first £75 increasing up to 8*s* over £1,275	30	Plus 25 per cent on bachelors

* Varying rates from 2 per cent on first £75 up to 40 per cent on amounts over £1,275.

Hansard, April 23rd, 1952. Oral Answers, Col. 400.

Taxation on Annuities: Consideration

Mr G. WILLIAMS asked the Chancellor of the Exchequer if he will recommend that the Royal Commission on the Taxation of Profits and Income should consider the case of taxation on annuities.

Mr R. A. BUTLER: This matter is being considered in the first instance by the Committee on the Taxation Treatment of Provisions for Retirement, under the chairmanship of Mr Millard Tucker, Q.C.

Hansard, April 22nd, 1952. Written Answers, Col. 16.

NOTES AND NOTICES

Personal

MESSRS LEECH, EVANS & Co, Chartered Accountants, announce that Mr S. V. MANN, A.C.A., A.S.A.A., who has been a valued member of the staff for many years, has been admitted as a partner in the firm, both at Coventry and London, as from May 1st, 1952.

MESSRS ROBERT H. MARSH & Co, Chartered Accountants, of 73 Ethelburga House, 91 and 93 Bishopsgate, London, EC2, announce that they have recently taken into partnership Mr BASIL ARNOLD CLARK, F.C.A., who has been closely associated with the firm for many years. The style of the firm will remain unchanged.

MESSRS MITCHENER, FOGARTY & Co, and JOHN MITCHENER, BENNETT & Co, announce that their address has now been changed to 58 The Avenue, Southampton. The telephone numbers remain unchanged.

MESSRS JOSHUA WORTLEY & SONS, Chartered Accountants, of 8 Paradise Square, Sheffield, 1, announce that Mr PETER J. GOULD, A.C.A., who has been associated with them for some years, has joined the firm as a partner as from April 1st, 1952.

MESSRS CRANE, CHRISTMAS & Co, Chartered Accountants, of 46–47 London Wall, London, EC2, announce that in accordance with arrangements made prior to the recent death of Mr ERNEST WILLIAM LANGFORD, F.C.A., they have taken into partnership, as from April 6th, 1952, Mr JOHN A. ADAMS, A.C.A., who has served his articles with the firm and has been a member of the staff for many years. The title of the firm remains unchanged.

Professional Notes

Mr F. M. Coe, A.A.C.C.A., who has been the chief accountant of Smith, Bell & Co Ltd, of Manila, Philippines, since July 1947, has been appointed a director of the company and of two of its subsidiary companies, C. M. Lovsted & Co (Manila) Ltd and the Philippine Diesel Service Corporation.

Mr N. G. Lancaster, M.B.E., A.C.A., an assistant managing director of Tube Investments Ltd, has been appointed executive deputy chairman of the group's aluminium subsidiary companies, TI Aluminium Ltd, Reynolds Light Alloys Ltd, Reynolds Rolling Mills Ltd, and the South Wales Aluminium Co Ltd.

Revenue Paper: Easter Sittings, 1952

COURT OF APPEAL

The following cases are down for hearing in the Court of Appeal:

Bentleys, Stokes and Lowless *v.* Beeson.
Dale *v.* C.I.R.
Faulconbridge *v.* Thomas Pinkney & Sons.
Thomas *v.* Marshall.
C.I.R. *v.* Mayor and Citizens of City of London.
Chibbett *v.* Harold Brookfield & Co.
Snook & Co *v.* Blasdale (H.M. Inspector of Taxes).
James Snook & Co *v.* C.I.R.

CHANCERY DIVISION

The following cases are down for hearing in the Chancery Division:

Lt.-Col. Patrick D. Stewart *v.* C.I.R.; and Angela Beatrice Stewart, Douglas Norman Stewart and Kenneth Herbert Thompson as Executors of Lt.-Col. Patrick D. Stewart *v.* C.I.R. (By order to carry on proceedings dated August 2nd, 1951.)
The Nestlé Co Ltd *v.* C.I.R.
C. P. Kempster *v.* S. J. McKenzie (Inspector of Taxes).
G. H. Newsom *v.* J. V. Robertson (Inspector of Taxes).
J. V. Robertson (Inspector of Taxes) *v.* G. H. Newsom.
C.I.R. *v.* Chappie Ltd.
A. & J. Mucklow Ltd (in liquidation) *v.* C.I.R.
Philip Hutton *v.* C.I.R.
E. M. Compton Mackenzie *v.* T. J. B. Arnold (Inspector of Taxes).
H. T. Recknell *v.* C.I.R.
C.I.R. *v.* Walker Cain Ltd, for the trade of Barrett & Co (Lancashire & Cheshire) Ltd.
D. Morgan (Inspector of Taxes) *v.* Tate & Lyle Ltd.
A. Harvey (Inspector of Taxes) *v.* R. J. Breyfogle.
C. Bray (Inspector of Taxes) *v.* W. S. A. Colenbrander.

Association of University Teachers of Accounting

The Association's annual conference this year was held from March 28th to 30th at Burwalls, a hall of residence in the University of Bristol. The conference began with an informal dinner at which the chief guest was Mr S. W. Cornwell, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales.

On the Saturday morning, papers were read by two visitors, Professor R. C. Tress, B.SC.(ECON.), of Bristol University, whose subject was 'The use of accounting terms and concepts by economists', and Mr I. F. Pearce, B.A., A.C.W.A., lecturer in Industrial Administration in the University of Nottingham, who spoke on 'Cost accounting and economic theory'. On Saturday afternoon there was a discussion between those members who are interested in teaching in taxation, and in the evening members visited the Bristol Theatre Royal.

After the general meeting on Sunday morning, the final session of the conference was addressed by Mr F. J. Weeks, A.C.A., accountant to the W. D. & H. O. Wills branch of the Imperial Tobacco Co, on 'Some impressions of American industrial accountancy'.

Professor W. T. Baxter, B.COM., C.A., presided over the conference and at the annual meeting the following officers were elected:

President (to July 31st, 1952): Professor W. T. Baxter, B.COM., C.A. (London School of Economics); (as from August 1st, 1952): Mr Brian Magee, B.COM., F.C.A. (University of Bristol).

Secretary and Treasurer: Mr C. C. Magee, B.COM., F.C.A. (University of Wales).

Joint Editors of the Association's News-letter: Mr H. C. Edey, B.COM., A.C.A., (London School of Economics), and Mr J. Kitchen, B.SC.(ECON.), A.C.A. (London School of Economics).

Committee: Professor Donald Cousins, B.COM., A.C.A. (University of Birmingham); Mr C. A. Smith, LL.M., F.C.A. (University of Sheffield); and, after his retirement as President on July 31st, 1952, Professor W. T. Baxter, B.COM., C.A. (London School of Economics).

Hon. Auditor: Mr R. R. Elliott, B.COM., F.C.A.

It was decided to hold a meeting at the London School of Economics on the evening of Tuesday, June 24th, 1952 to meet university teachers of accountancy from oversea.

Applied Statistics

The first issue of a new journal of the Royal Statistical Society entitled *Applied Statistics* was published on April 25th last and it is with pleasure that we welcome our new contemporary.

Applied Statistics is to appear thrice yearly, in March, June and November, and aims to present surveys in non-technical language of various fields of application of statistics, also descriptions of the statistical set-up of various institutions and firms, and discussions of questions of topical interest.

The publishers are Oliver & Boyd Ltd, of London and Edinburgh, and the annual subscription is 25*s* net (single copies 10*s* net).

Chartered Accountants serve on Council of Free Churches

The president, immediate past-president, and treasurer of the Croydon Free Church Federal Council are all chartered accountants. On Wednesday last, Mr A. Stanley Carruthers, A.C.A., an Elder of St Paul's Presbyterian Church of England, South Croydon, completed his year of office as president, and on that day inducted as his successor for 1952–53, Mr Redford Crosfield Harris, M.A., F.C.A., a member of the Society of Friends, and Clerk (chairman) of their Yearly Meeting.

At the annual meeting of the Council held on April 25th, Mr R. K. Wagstaff, A.C.A., treasurer of Aberdeen Road Congregational Church, South Croydon, was re-elected treasurer of the Council.

The Institute of Taxation

The annual general meeting of the Institute of Taxation was held in London on April 22nd. In the course of his speech, the President, Mr Stanley A. Spofforth, F.C.A., F.S.A.A., F.C.I.S., said of the Finance Bill:

'It may perhaps be unwise to be too scathing at this stage about a Bill which must surely be altered considerably during the Committee Stages of its passage through Parliament. Let us recall that the Finance (No. 2) Act of 1915, which introduced excess profits duty, covered but nine pages of Act and four and a half pages of schedule – that the Finance (No. 2) Act of 1939, which introduced excess profits tax, covered thirteen pages of Act and seven pages of schedule – but the Finance Bill of 1952, introducing excess profits levy, covered twenty-six pages of Act and twenty-six pages of schedule on the day of its birth! Let us remember that the Bill was expedited by a month at least, and let us then rather say: "Oh! wonderful Somerset House".'

Fifty Years' Service

A luncheon was held in London on Tuesday last when Mr E. H. Howard was entertained by the partners of Thorne, Lancaster & Co, Chartered Accountants, to celebrate his having completed fifty years' service with the firm.

With other gifts he was presented with framed photographic copies of the letters (written in longhand) which he exchanged with T. Fredk. Thorne, Lancaster & Co, as the firm was then styled, prior to his appointment in 1902. Among the many changes that Mr Howard has witnessed, is the increase in the number of his colleagues in the firm from eight to eighty.

The Accountant

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CONTENTS

THE FINANCE BILL IN COMMITTEE

ON Wednesday, April 30th, the Committee stage of the Finance Bill was begun and that day was devoted to debates on amendments to the clause giving effect to the recent increase of $7\frac{1}{2}d$ a gallon in the petrol tax.

This part of the Budget, although directed at quite a different target than is the excess profits levy, has this in common with the levy, namely that it found very little vocal support even from the Government benches.

Another point of contrast between the petrol tax and excess profits levy is the extreme simplicity of administration of the former, a simplicity which makes it a constant temptation to a Chancellor in search of easy money. Although no one who has read the excess profits levy provisions could suspect the present Chancellor of a fondness for simplicity for its own sake, attempts in the House to exempt spirit used in manufacturing were rejected on the grounds that this would cause administrative difficulties.

It was pointed out that petrol tax differed from taxes on drink and tobacco in that petrol entered into the cost of so many necessities of life. The CHANCELLOR confirmed that in the case of farmers full account had been taken of the incidence of the rise in the cost of petrol in framing the price schedules recently announced, so that the tax will be reflected in an increased cost of food, as well as transport. Indications of what this amounted to were given by one member who said that the cost of fuel for a tractor commonly used by small farmers included £325 per annum in respect of tax at 2*s* 6*d* a gallon, or the equivalent of the wages of an additional driver, not to mention the cost of stationary engines, like milking machines. It certainly seems a little odd that food should at one and the same time be taxed and subsidized, though it is by no means a novel feature of our fiscal system. For the consumer the outlook is made still darker by talk of a special levy on road haulage undertakings which, in the nature of things, will be passed on.

A spokesman for the paint industry pointed out that the tax on light hydrocarbon oils used in that industry represented 175 per cent of the wholesale price, as against purchase tax of only 100 per cent on luxury fur coats. Another member said that 2*s* 6*d* a gallon on petrol was equal to £25 a ton on coal, or a tax of £1 per head on railway passengers travelling from London to Edinburgh.

On Tuesday last the Committee stage was resumed with debates on Clause 2 (Entertainment Duty). Mr BUTLER agreed to amend sub-clause (7) by postponing the increased duty from August 31st to September 13th, so as to exclude all cricket matches this year.

OLD FRIENDS PASS

by ANGUS MacBEATH, C.A., A.C.W.A.

During the past thirty years no accountant has qualified without becoming familiar with some sections of the Income Tax Act, 1918, and the Finance Acts which have followed. The Income Tax Act, 1952, has by consolidation eliminated all those sections as we have known them. In this article the writer is in reminiscent mood.

THE fire was burning low and the little flames which danced round the coal were brightly mischievous. As I gazed, in pensive mood, the flames threw up fleeting shadows in the darkened room and my fancy gave them shapes – shapes which brought to mind old friends whom time was moving on.

Companies Acts

I saw a student diligently studying the Companies Act, 1929, and preparing for the examinations, his knowledge of the important sections of the Act, of accounts and audit, of directors' remuneration, of subsidiary companies – and then the dancing lights changed the student into a dignified qualified accountant amassing a knowledge of the provisions of the Companies Act, 1948, for the benefit of his professional clients.

Somehow the old friends of the Companies Act, 1929, passed with little fuss and little opportunity for any regrets. The circumstances were against the 1929 Act. Our interests lay in the contemplation of the new provisions and the changes rather than in reflecting on the sections which had been annual friends for almost twenty years and had at last passed on.

Group accounts swept out the statement required under Section 126; full disclosure swept aside the limited disclosure of directors' remuneration under Section 128, and the Ninth Schedule found us memorizing a new 'clean' certificate.

The passing of the Act of 1929 did not, therefore, tend to produce that reflection which might have been present if the Act of 1948 had been but an Act of consolidation rather than an Act which introduced extensive changes in accounting requirements.

Income Tax Acts

The flames danced again and now I saw a clerk, with neatly waxed moustache and high stiff collar, diffidently turning the pages of the Income Tax Act, 1918. Here was sterner stuff than the Companies Acts.

Down the years dance the flames following the growth of tax legislation. Each year a new Finance Act, sometimes two, and the garb of the clerk changes as the years roll on, yet ever in the background remains the same fixed anchor, the Income Tax Act, 1918.

A change at last! National defence contribution and excess profits tax had been riveted to the income-tax legislation and we passed on but now we have a new clerk. He still wears a moustache but it has changed to the wide woolly type called 'handlebar' and his physique is characteristic of those who delved into the third dimension during the Second World War. He is charging through the sections of the Income Tax Act, 1945, our first Income Tax Act for twenty-seven years yet still the old one is there, somewhat scarred perhaps by the ravages of time, Finance Acts and Court cases, but even so, completely sound in heart.

Excess profits tax disappears and national defence contribution merges into profits tax and on we go again with more and more Finance Acts.

Income Tax Act, 1952

But now the flames flicker low and we have two little lights, on opposite sides of the fire, both, however, showing much the same picture.

On one side an Inspector of Taxes wearily turns over the pages of a massive book, looking up occasionally to sigh deeply, cogitate for a few moments, then return to his task. On the other side a professional accountant wearily turns over the pages of a massive book, looking up occasionally to sigh deeply, cogitate for a few moments, then return to his task.

Evidently they are both in the same plight! The massive books which they read are, I see, copies of the Income Tax Act, 1952. Five hundred and thirty-two sections and twenty-five schedules. No small wonder that they conduct their examination with weariness.

I watch those weary readers and compare them in my mind with the attentive interest of the reader of the Companies Act, 1948. Here there is no new interest as was given by the Companies Act; here is, in the main, merely the old dressed up in a new fashion.

I look away from the fire and reflect. How

would the 1918 clerk have reacted to this massive tome in place of the relatively slim volume of that year? I shudder when I think of the student starting the study of income-tax: he might look at the 1952 Act rather as a Shetland pony might look at Becher's Brook.

The Procession

I glanced back into the fire and in my fancy saw a procession of people.

First came tripping a gay little maid who smiled at me as she said, 'When you were dealing with a new business you always referred to me. I am Section 15 of the Finance Act, 1930, and I allowed you to have the second and third years' profits adjusted to actual, but now . . .' and her smile faded as she turned into a grim old lady dressed in black, '. . . I am the option in Section 129.'

As the old lady passed she was followed by a middle-aged man who looked extremely business-like. 'Of course no one liked to make a loss, sir, but it was always a consolation to your client when you told him you could obtain a repayment of tax by intimating a claim under Section 34 of the Income Tax Act, 1918. Yes, sir, I think I can fairly claim to have been one of the accountants' favourite sections, but now . . .' and here he also changed into a black-coated gentleman of somewhat forbidding mien with a large nose and a high starched collar, who looked at me over the top of his dark shell-rimmed spectacles, '. . . now I am merely a claim under Section 341.'

He stalked away to be succeeded quickly by a jovial lady whose contribution was 'I, too, helped your clients with their losses. After you claimed the repayment you carried forward the balance of loss under my section, Section 33 of the Finance Act, 1926'. Here she changed into another black-dressed lady as she grimly added, 'Now I am merely a claim under Section 342.'

I leant forward with interest to see coming forward two youths, hand in hand, one smiling, the other with a glimmer of a smile appearing out of recent sadness. Here were obvious twins. It was the bright one who spoke. 'We are the set-off rule.' Of course I knew them – Rule 13 of the Rules applicable to Cases I and II of Schedule D – the bright youth was the profit; the not-so-bright youth was the loss and, being twins, the one could be set off against the other. Old friends indeed. But they also faded and were replaced by a crusty old gentleman whose look seemed to convey the thought 'If only you would stick to one business I would not need to be here', but all he said was 'Section 142'.

There was a great sameness about the Income Tax Act, 1952, sections – it was as though the life in the old sections had been taken away.

Error or Mistake

The next character was a bustling stout little man whose bald head looked a permanent red in colour and who appeared to be extremely worried. 'I must have a place kept for me. It is only human to err and if mistakes cannot be avoided at least they can be corrected. You will remember me; I'm Section 24 of the Finance Act, 1923, and I allowed you to go back six years to correct any error or mistake.'

Oh, yes, I remembered him all right! There was that client who. . . .

But the little bald man had gone and again I saw large nose and high starched collar. 'Those who make mistakes', he paused as though to emphasize the enormity of such a happening, 'will in future seek my assistance', he glowered, 'Section 66.'

He was followed by someone entirely different. This man was tall and stately and as he jabbed his monocle up to his eye he lisped, 'Really you know, dash it all, fair play', from which I gathered that he was Section 21 of the Finance Act, 1922, requiring adequate distribution of profit to avoid a sur-tax direction. He beamed at me ere he also changed into the same black-coated type, 'I'm still here even with excess profits levy and profits tax. You will find me in Section 245'.

Sections of the Income Tax Act, 1918, and of all the Finance Acts came moving rapidly across the glow of the fire and I watched the passing of many old friends. How regularly dull seemed the sections of the Income Tax Act, 1952, which followed them and took their places. Variety of recollection had indeed been lost in the great consolidation.

The March of Time

The march of time! Perhaps in the future the Finance Acts of each succeeding year will build up anew a series of friends for the accountant as he goes about his professional duties.

I see the Inspector and the accountant reach the Twenty-fifth Schedule and pass over it disinterestedly. They close the Act, glance at their watches and sigh in unison, 'Late again tonight'.

Behind me I hear the door open, there is the click of a switch, the room floods with light and my reverie is over.

ACCOUNTING FOR BUSINESS
INCOME AND SOLVENCY BY HISTORICAL COST

by G. W. MURPHY, B.A.(Com.), F.C.A.,
Lecturer in Accounting, University of Manchester

Opinions on Theory and Practice

OPINIONS can be classified into orthodox and unorthodox: the orthodox are those which coincide with the recommendations of the various professional bodies of accounting.

It is the endeavour of the challengers to seek the retirement of the historical cost concept on the ground that it does not reveal true income during inflation; other challengers state that until income itself be defined the concept appears illogical; others advance a theory of value as being the determining factor in measuring income, and still others, from political motives, wish to show lower industrial earnings so as to gain taxation advantages and resist wage increases.

Conventions used in Accounting during stable monetary values

The conventions agreed upon by the orthodox are based upon the law of contract, being the recording of the consideration or price passing for the benefit conferred on parties of the contract. The central concept is to offset aggregates of money prices receivable against money prices payable, the differences being income or assets and liabilities. Where prices paid have not resulted in a completely expired benefit, the unexpired sum is of course an asset together with the remainder of cash or near cash not disbursed.[1]

To suppose that accountants have any connexion with evaluation in the normal understanding of the term is a common fallacy except perhaps with regard to non-marketable equities. Even though a 'value' is given for inventories it is really only an assessment based on historical cost and that, even when the option of lower market price is used.[2]

Criticism of Orthodox Conventions

But of what use are the resultant figures of income based on historical costs during stable monetary conditions? If the same conventions have been consistently maintained in all calculations of income, then there is no doubt that comparisons are useful between different fields of investment, and trends of income are of undoubted assistance in forecasting future results. Unfortunately, there is a criticism against orthodoxy on technical grounds. Conventions of income measurement vary between professional accountants and even between industrial accountants. The result is that major calculations may have to be completed before consistent income figures are determinable.

The English Companies Act, 1948, helps the investigator in his search for consistent income calculations but does not cause companies to supply automatically the figure because again income is not defined. Indeed, it is doubtful whether rules can be safely formulated to predetermine the calculation of income for every firm.[3] It is considered that much is being and has been achieved in the accounts of the same sector of industry. Nevertheless, there is no reason why accounting principles should not be in agreement throughout all monetary systems. Until this has been achieved, then the historical cost presentation is neither consistent nor efficient. The simplest example of criticism is the assessment of depreciation on fixed assets. This may be calculated on a basis of historical cost or by reference to replacement cost.[4]

The Importance of Solvency

Important as the measurement of income may be, it is nevertheless vital to form an opinion of solvency. Many firms have published substantial profit figures and seemingly sound balance sheets only to find themselves in the hands of a liquidator before the expiration of a year from the date of publication of the last accounts. To create and maintain adequate liquidity is axiomatic in commercial ventures.[5] Every investor today is constantly warned of this factor when the company chairman deplores the rapacity of the

[1] It is appreciated that this is a simple way of disposing of a problem to which many pages of explanation are usually given. Perhaps this may be 'unorthodox' but usually the result obtained is the same and the explanation more accurate.

[2] Harry Norris, 'Profit: accounting theory and economics', *Economica*, August 1945.

[3] See *Company Accounts*, by Vivian H. Frank.

[4] Cf. Recommendations on Accounting Principles No. XII, The Institute of Chartered Accountants in England and Wales.

[5] Cf. Memorandum of the British Bankers' Association, July 1951.

welfare state, which, flogged by competing ideologies, struggles to fill its ever emptying treasury.

And yet accounting conventions only make inadequate attempts to supply the second vital piece of information. Excess of current assets over current liabilities is shown once a year. The all-important statistical data is missing – the all-important trend which would be noticed by annual and monthly analyses of liquidity. A reply which can be made is, of course, that the trustees or directors are aware of the position. Naturally, any investor in equities hopes that this is a fact. Sad remembrance of the early 'thirties shows such hopefulness to be the lot of the inexperienced. Directors require to be tested for efficiency just as much as politicians. Accounting statements should be supplemented by vital data where lack of disclosure may lead to misinterpretation.

The Balance Sheet and Speculation

The balance sheet does not emphasize that it has only an important function as a record of the disposal of funds, and consequently judgment cannot be made of the wisdom of the policy being followed by the board until it is too late. Over-speculation is hard to detect from the balance sheet and it is possibly the direct cause of many insolvencies when the price level falls.

The problem becomes even more difficult when the testing of results in the competitive field is removed. In the case of competitive investment, the investor will work on the comparative yield of various equities purchased or money lent. The money market or Stock Exchange is the final arbitrator of efficiency.

Nationalized Industry Accounts

These are frequently prepared according to the 'best commercial principles'. This must occasion even more adverse criticism by an investigator, for if competition is removed then, logically, profits appear to be redundant in the test for efficiency. It is here that it would appear once again that the financial statements of disposal of funds and the matching of costs and revenue in accounting practice require additional information.

Statistics would appear to play a more important part in the analysis of efficiency factors than the calculation of a profit or surplus figure. When public funds are made available for investment in industrial and commercial projects, care must be given to the form in which the results of the employment of the funds are to be shown. Even greater care must be given to recording the day-to-day disposal of the funds.[1] It is an incredible fact that in the fields of socialized industrial activity so little care is given to the analysis of causes leading to the results published.

Historical Cost during Inflation

For practical purposes the decline in the purchasing power of money has no great disadvantage, providing it is gradual. Unfortunately, the decline becomes rapid in certain periods and most apparent during and following large-scale warfare. It is obvious that following a rapid decline in money values, financial statements may not be compared from period to period.[2] If the decline is exceptionally rapid, as it is during inflation, the control of financial enterprise, or indeed of any economy, becomes difficult.

Neither orthodox nor unorthodox accounting opinion denies the loss of a stable currency. The dispute concerns the method of reporting stewardship and enabling efficiency to be verified. Any able management knows the dangers inherent in business and government during fluctuating price levels whether due to inflation or otherwise.

The modern critic of historical cost during inflation denies the hypothesis of stable money values and attacks the accuracy of reporting income based on such a postulate.

From a logical aspect he cannot be denied the truth of his assertion. From a conventional and empirical aspect he is repeatedly denied.[3]

So sure has the critic of historical cost accounting become of the importance of his opinion that it has been advanced as an argument to obtain taxation relief by nearly every company in the United Kingdom. The argument states that the levying of taxation on 'profits' which reflect merely an inflationary rise in the price of stock that has to be replaced are elements of overwhelming importance in explaining the development of financial stringency.[4]

Revenue methods of computing profits for taxation whilst using part of the main structure of accounting principles do not utilize the whole structure.[5]

[1] Cf. the first accounts of the Overseas Food Corporation.

[2] See 'Accountants and the inflation.' Professor W. T. Baxter, Manchester Statistical Society.

[3] Cmd. 8189, page 36 (Report of the Committee on Taxation of Trading Profits). See also the interpretation of Sections 11 and 12 of the Securities Act, 1933 (U.S.A.), page 81, of *Business Income under Present Price Levels*, Arthur H. Dean.

[4] Memorandum of the British Bankers' Association to the Royal Commission on the Taxation of Profits and Income.

[5] Probably the greatest divergence concerns allowances for depreciation.

If we are to decide the use of income determined by historical cost as opposed to that determined by other methods, we must rely on distinguishing the utility of each concept. Three points appear to be of importance.

Firstly, if replacement cost were adopted, would any benefit accrue to the community as a whole because during inflation profits as reported to shareholders were less in amount than if reported by historical cost?

Secondly, would any benefits accrue to the individual members of each corporation because profits were reported less during inflation by replacement cost accounting?

Thirdly, should every company accept certain principles of accounting and consistently apply them?

Opinions on applying Historical Cost to determine Income during Inflation

Following Mr T. Barna's article 'Valuation of stocks and the national income', in *Economica* of November 1942, the discussion of inflation and its possible effects on accounting procedure began after an interval which followed the pioneering of Mr Henry W. Sweeney.[1]

Lower profits being reported would possibly cause a more stringent economic policy to be adopted earlier than would otherwise be the case. This would have been an undoubted economic benefit to the United Kingdom after World War I and World War II.

In answer to the second question, all that shareholders could expect would be the probability of less being paid in dividend for the present but with the expectancy of more consistent yield in the future. Much here would depend on the kind of investment under examination. For instance, short-term speculation could hardly be popular under such a levelling process. It would probably have to become the concern of the government who would hardly be able to achieve the same efficiency as the entrepreneur.

Clearly, if unorthodox opinion is carefully examined there appears a great deal in its favour, providing that directors and entrepreneurs understand their responsibilities. It must not be forgotten that directors are responsible for the financial statements published by companies.[2] If directors value their appointments they must show an aptitude for administration which often goes beyond the requirements of legislation and involves making clear to shareholders that certain prudent financial policies should be adopted in the face of inflation. Providing the policy is clearly shown the shareholders may accept or reject it as they wish, as in the final outcome they are the owners.

Finally, there is consideration of the last question – should every company apply the same principles? In certain questions of public policy standardization can have deplorable results. But in the financial world, as in many others, there are obvious advantages to be gained by agreeing to accepted principles and only changing these when popular opinion is convinced of the change in principles being to majority advantage. Such a change as that envisaged by changing methods of reporting income from historical cost to replacement cost has yet to be voted upon. There is no harm in debating with and trying to persuade the electorate but until the electorate goes to the polls no definite change should be made in practice, since by doing so confusion inevitably results.[3]

Historical Cost and Efficiency

The principle difficulty experienced by the investor and public owner when income has been determined is whether the concern has been efficient when judged by achievements of comparable corporations in the same field. When there are no other comparable organizations, as in the case of state-owned organizations, the difficulty becomes intensified by the difficulty of selection of proper criteria. Statisticians frequently observe the difficulties arising out of the use of historical costs for determining efficiency even within the same industry.

Serious research has already been embarked on the task of measuring productive efficiency by other means than simply expressing historical costs.[4] Criteria of this nature should be published when the significance of reporting income is in doubt owing to the removal of competition, differing capital structures or diverse financial policies.

Speculation and Borrowing

A further difficulty experienced in assessing efficiency from reported income concerns the question of speculation which has been mentioned previously in this article. If speculation is necessary, and there are few businesses where no speculation is required, then how does one

[1] Cf. 'The Maintenance of capital' in *Accounting Review*, December 1930, and *Stabilized Accounting*, 1936.

[2] Companies Act, 1948, Section 147 (4).

[3] The writer has in mind the change made in the accounts of Imperial Chemical Industries Ltd, December 31st, 1950.

[4] 'The Measurement of productive efficiency' by a Sub-Committee of the Incorporated Accountants' Research Committee.

determine the amount of speculation permissible? Some investigation might be conducted in different industries as to the capital required to finance speculation.

In these days of high taxation levels it would appear that more and more money is being borrowed from the banks who are notorious short-term lenders. How is the investor to be sure that the directors' financial policies comply with conditions of overdraft?

In conclusion, it is submitted that the orthodox historical cost concept is under fire not only by replacement cost enthusiasts but by sections of the public who, although not in the least members of the select coterie, are vitally interested in the activities of corporations, whether public or private.

The Form of Published Information

It is plain that more information will be required in order that useful conclusions may be drawn from published results by investors, labour unions and citizens generally. What form the information should take is a matter to be considered separately in each sector of the economy by experts in the field of investigation concerned. Thus committees might be formed to deal with the question for the steel industry being composed of accountants, economists, trade union representatives, industrial consumers and the public owners.

Whatever statistical data is required it will be certain that the final test of efficiency will be made by using the basic standard cost techniques and possibly, should further inflation be present, monetary index adjustment indices used on the lines advocated by Professor W. T. Baxter and others in papers of recent years.

As further studies proceed it will be seen that the historical cost concept requires more and more elucidation but will prove a useful servant in all fields of economic enterprise.

INCOMPLETE RECORDS

ACCOUNTS OF THE SMALL SOLE TRADER

by T. ROY ASTLEY, A.C.A.

Introduction

IN the interests of simplicity, I shall limit the scope of this address somewhat severely and deal almost exclusively with the records and accounts of one type of client only – the small sole trader.

It is quite obvious, nevertheless, that many of the methods and principles which I shall discuss are capable of a wider application. This will normally be so in small partnerships and even in some small private companies.

Value of Experience in Incomplete Records

It is difficult to imagine any type of work other than incomplete records which, if administered to an articled clerk in reasonable doses, is more likely to stimulate that alert, inquiring and logical type of mind which is essential for efficient auditing. Unless a clerk has these qualities he will not normally be able to bring any job, be the records complete or incomplete, to a successful and accurate conclusion.

That an auditor's mind should be alert and inquiring is obvious, but it is equally as important that his work should be carried out in a logical and orderly manner, if information which is gained through alertness and inquiry is to be adequately utilized.

Where work is proceeding haphazardly and according to no predetermined and settled plan, over-abbreviated audit notes made on scraps of paper and kept in no settled order are probably not understood or even remembered by the clerk who made them when the time comes for them to be used. This type of work is time-wasting, ineffective and dangerous.

It is in the training of a clerk to think logically, to use initiative and to make ordered and complete records of his work, that time spent on incomplete record jobs can prove to be invaluable.

An address to the Manchester Chartered Accountants' Students' Society on October 15th, 1951. Mr T. W. E. Booth was in the chair.

The Approach to the Work

When engaged on this type of work, neither such entries as there are in the books of account, nor the documents from which those entries originate, can be accepted blindly at their face value. Further, entries which have not been made and for which there are no obvious documents must be considered.

Thus during the course of his work the clerk should apply his knowledge of the conditions under which the business is operated.

To this end he should familiarize himself with:

System of accounting employed, or records which are available.

Whether there is any internal control, and if so, its extent and efficiency. (Even many small retailers employ assistants and use at least one cash register.)

If the business is of a manufacturing type, the methods of production should be known, also materials used in production.

The manner in which sales are effected or production disposed of is important, together with a knowledge of any scrap or residuals arising and the manner of their disposal.

The nature of any sundry receipts arising.

Queries arising out of the work carried out should be disposed of at once wherever this is possible. By this I mean that if the clerk can clear a point without reference to any other person, he should do so at once. Where it is clear that there will be many queries each day with regard to which the assistance of the proprietor of the business or his book-keeper must be sought, it is best to list all such queries and clear them at the end of each day – thereby saving a lot of time and annoyance.

Where points arise, during the work, on which the clerk is not too sure of himself or where it would appear that there is something really wrong in the information he has been given, such points should be clearly recorded on the working papers and presented to the person who is required to pass the accounts.

Thus it can be seen that almost exactly the same method of approach is required to an incomplete record job as is required in the approach to the audit of a large public company; and while it is obviously ridiculous to say that if one is efficient in dealing with incomplete records, one is therefore a good auditor, I will say that if one cannot cope with incomplete records, then 'the rest is silence'. In other words, such a person is worse than useless as an audit clerk.

I propose now to take an imaginary case, of no specific type of business, and follow it through from the time the client brings his books and papers to the office, to the signature of the accounts.

Preliminary Consideration

Whether or not it is wise to accept the job at all is perhaps not always given the fullest consideration. This question should, of course, be decided at a preliminary interview and the following are some relevant points:

(i) The way in which the prospective client was introduced to your firm is of importance. People do not as a rule 'drop in' on accountants in the same way as they do on tobacconists, and it is useful to know who has been the connecting link. If it is an existing client of unimpeachable integrity, then that is at least a reasonably good start, but if the connecting link is (for want of a better word) a difficult client, then this *may* give a clue to the type of individual who now wishes you to undertake his work.

(ii) The reason why the prospective client has approached your firm is also in point. He may come armed with a sheaf of estimated assessments, final demand notes or threats of prison (never having employed an accountant before), or it may be that he wishes to change his accountant.

In the latter case, some further inquiry is necessary from the client, as to the reason for the change, and from the previous accountant, asking if there is any reason why your firm should not accept the job in question.

In the absence of satisfactory answers from both sources, it is in the interest of any reputable firm to go no further in the matter.

(iii) Assuming, however, that the answers to the above are satisfactory, the next stage is to consider what your firm will be called upon to do.

Liability of the Accountant

In the majority of cases this is merely a question of preparing accounts for submission to the Revenue, from the books and information available.

Where this is the case the 'report' which you will be called upon to sign may be:

> Prepared from the books and information received from Mr ....
>
> by ....

I have seen merely the words 'Prepared by . . .', or you may be required to sign a certificate such as 'Audited and found correct'.

There is, of course, a great deal of difference in the legal liability of a firm which certifies accounts as having been audited and found correct, and one which simply states that the accounts have been prepared from the books and information received from Mr ——. That is obvious although, nevertheless, a study of the relevant case law (*Wilde and Others v. Cape and Dalgleish* (1897, Acct. L. R. 81); *Smith v. Sheard* (1906, 34 Acct. L. R. 65); *Trustee of Apfel v. Annan Dexter & Co* (1926, 70 Acct. L. R. 57)) will support the view that it is wise to get clear instructions from the client in writing or to express your own interpretation of your instructions in writing and get your client to agree that the instructions as laid down are correct.

Nevertheless, even where it is clear from your written instructions that you are not called upon to audit the accounts in any way, it would be most foolish to sign any accounts, however non-committal your report, without considering what your position would be if you were called upon to sign the report required by the Ninth Schedule of the Companies Act, 1948, without qualification.

Obviously, if the accounts are prepared primarily for submission to the Revenue, the main requirement is that the profit and loss account should give a true and fair view of the profit for the year.

In this respect, while the auditor of a limited company would be compelled to qualify his report if he did not consider that the depreciation charged

in the accounts was correct, this would not be very important from the Revenue point of view. Similarly, the Revenue are not deeply concerned about the balance sheet except in as much as it supports or otherwise the profit shown for the year under review.

Nevertheless, since a balance sheet and profit and loss account is prepared in almost every case, they will presumably be relied on by the client and – perhaps even more important – by some future intending purchaser.

Thus we are forced to the conclusion that even if he has little legal liability, the accountant has a considerable moral responsibility for these accounts made up for small traders from incomplete records.

Books and Records Available

Following logically from what I have just said, before he accepts any job, the accountant must consider carefully what records are kept by the prospective client and what records will be made available to him (the accountant).

Quite obviously (as far as the majority of incomplete record jobs are concerned), to secure the pass-book of *every* bank account used by the client, together with permission to write a bank letter in the broadest terms is the cornerstone without which the accountant cannot build. Furthermore, it is very desirable to handle all the client's taxation affairs and thus have a knowledge of all his investments and property.

Assuming that the work is accepted, the accountant should then take a note of or obtain the following information for permanent record:

(i) Copy of partnership deed (if any).

(ii) Any important agreements (e.g. hire purchase etc.) affecting the firm.

(iii) Address of the office and/or shops (branches) together with the client's home address.

(iv) A list of all books and where they are kept, and a note of who keeps them.

(v) Brief details of any internal control in force.

(vi) A list of all property and investments, both business and private, showing, where practicable, cost price. Details of purchase of the business.

(vii) Where the job is taken over from another accountant, as many copies of previous accounts as are relevant.

(viii) A note of the client's bankers.

Finally, before the preliminary interview with the client is ended, the question of fee should be discussed, since some small traders' ideas on what is adequate remuneration for the preparation of their accounts is, to say the least, entertaining.

We are now at the stage where the books, papers and information obtained at the preliminary interview, together with a programme of work, are handed over to a clerk to start on the work proper.

Programme of Work

It is vital that even the smallest of jobs should have a programme of work, for all the text-book writings on the necessity for detailed audit programme apply equally in these cases. Further, since the whole of the work is carried out by fairly junior staff, the need for guidance and clarity is more urgent.

No programme of work prevents a clerk who has been properly trained from thinking for himself, and in my experience it frees his mind from the welter of routine, enabling him to think more clearly and constructively.

It is also worth while considering at this stage that since it is usually necessary to refer to cash vouchers and invoices even to make up the accounts, what actually happens is that in most cases a very detailed audit is in fact carried out; thus even though the accountant may say that the accounts are only 'prepared by him', he should be just as happy about their accuracy as about any set of company accounts.

Methods

It is imperative that there should be an absolutely clear beginning. Thus, if there were no accounts prepared for the previous year (in which case the balance sheet thereof would form the basis) an opening balance sheet must be prepared.

This balance sheet will of course comprise goodwill (if any), property, stock, debtors, bank and cash. On the liabilities side, creditors and capital probably the balancing figure. If the concern is a partnership, the partnership deed will usually give the basis of these entries.

Taking an extreme case, it is quite possible to determine the profit for the year without completing the records available.

It is necessary only to compare the capital at the beginning of the year with the capital at the end of the year – after adjusting for personal drawings and for payments into the business – to arrive at the profit for the year. This simple method is, however, not generally acceptable to the Revenue, since the dividing line between capital and revenue is not sufficiently clear; nor does it facilitate any analysis which the Revenue may require.

Another simple case from the accountant's point of view is when the client keeps complete records of all his personal accounts, including sales and purchases day books, but fails to keep impersonal accounts. The task here is merely the writing up of the impersonal accounts.

Another variation is when the client keeps only cash and bank books and personal ledgers. Here, the sales, purchases or returns, etc., can be ascertained by analysing the personal ledgers and constructing total debtors and total sales accounts. It is advisable to vouch the purchase and sales invoices direct to the ledger accounts and make suitable notes therein to facilitate the analysis of the ledger accounts.

In all cases, however, the part of the job which

has to be most carefully watched is the cash sales, and the following example should help in this respect.

Cash and Bank Accounts

Very often no proper cash book is available in which case it is necessary to analyse the receipts and payments in the bank pass-book and pick up cash receipts and expenditure from memorandum books or vouchers only.

For this purpose analysis sheets should be used, the columns headed roughly to correspond with a normal purchase invoice book.

When this analysis has been completed for the year, it is possible to take the totals from the sheets and write up total cash and bank accounts for the year.

The most important connecting link between the two is, of course, cash banked; but it must be borne in mind that all cash has not necessarily been taken to the bank. Other possible locations of cash are post office savings bank, savings certificates or investments and property.

Of course such a position would be readily discovered if the cash sales were correct, but in the absence of a good internal check thereon such a happy state of affairs cannot be assumed.

Thus all receipts and payments must be most carefully scrutinized for evidence of any additional property (Schedule A receipts) or investments (dividends) and the like.

Obviously if all the items included in the cash account are correct the resulting balance should equal the cash in hand at the end of the year.

Since one item on the debit side, i.e. sales, is often problematical, and one on the credit side, i.e. personal drawings, is also problematical, this is usually where the fun starts.

One of the tests for correctness of sales is percentage of gross profit. The percentage arrived at can of course be compared with previous years, and with other businesses in the same trade. Unless this position is satisfactory, there is absolutely no point in going further with the accounts, for the Revenue also know what percentage should be obtained by each type of business and will take some persuading to accept any different figure.

Once satisfied that the sales figure is correct, it is usual to balance the account by increasing the figure of personal drawings as necessary.

It is wise, of course, to discuss this point with the client if the amount involved is material; it is likely that the client will not usually object.

The accountant must also consider at this stage whether or not the total of personal drawings revealed from cash account and bank account, taken together with any income from another source, is prima facie sufficient to keep the client and his family in the standard of life he is exhibiting.

I well remember one gentleman, wearing a very well cut suit and with his car parked outside the office, spending some considerable time explaining, to his own satisfaction at least, how he lived on nearly five pounds per week.

However, having finally settled the cash and bank accounts to his own satisfaction, the accountant may then proceed to extract his trial balance at the end of the year.

I would again emphasize that the accountant must be completely satisfied that each account is correct or he is not justified in going further.

Debtors and Creditors

Where no personal ledgers have been kept, the determination of debtors and creditors at the end of the year is somewhat difficult. Fortunately, this state of affairs usually exists only where the trade carried on is retail cash trade and the like, and thus the total debtors probably only amount to what is on the slate. This the client can give to you. In the case of people like dentists and chemists, however, where large payments are received from the National Health authorities, more care is necessary, for the National Health authorities have a system of payment on account with the final payment not made until many months later.

In respect of creditors, an examination of all invoices unpaid at the balance sheet date together with relevant statements should give the required answer and at the same time give data required to accrue the correct amounts for items such as rent, rates, lighting, etc.

I must point out here that it is essential where payments are made, or amounts received at regular intervals, to ascertain that the correct number of receipts or payments are included in the accounts.

For instance, there should be four electric light accounts, and if the rent is paid monthly, twelve payments thereof, for where a trader is in the habit of paying such expenses out of his own pocket and reimbursing himself later, there is a danger that he will forget to do this and his personal drawings suffer accordingly.

Thus all final debtors and creditors can be entered on the trial balance and the purchase or expense accounts altered accordingly.

Stock-in-trade

As always, stock-in-trade is a contentious item in this type of accounts, and here it is doubly necessary that the correct stock should be used, for not only does the profit for the year, of course, depend upon it absolutely, but the figures of gross profit percentage will be wrong if the stock is incorrect, which may lead to incorrect conclusion in the cash account.

It is just as important to apply reasonable tests to the stock-in-trade of a retail trade totalling £1,000 as it is to do thorough checks on the stocks of a public company, totalling over £1 million.

Obviously, where the total stock is only about £1,000 small errors are more important, and it is important that there should be a full audit programme

covering stock and, in particular, including such items as the following:

(1) Where stock in hands of third parties etc., see certificates supported by detailed inventories from holders stating that the stock is the property of the trader and free from lien.

(2) Verify that all items included as on sale or return are the property of the trader, or where stocks are held for third parties verify that such stocks are excluded.

(3) Verify prices by reference to invoices etc.

(4) Compare stock sheets with previous year for slow-moving or obsolete stock.

(5) Scrutinize stock sheets to see that nothing is included which does not fall within the category of stock-in-trade (i.e. plant, motor-cars, etc.).

These items I have enumerated are obvious stock checks I know, but I also know that there is a distressing tendency not to apply these checks on the stocks of an incomplete record job.

Personal Element in Expenses

Very often, where a trader lives on his business premises, a proportion of rent, light, coal, etc., may have to be disallowed for tax purposes to take account of his private use thereof. It is usually found to be simpler to disallow these proportions in the accounts themselves, and thus if it is agreed that two-fifths of all electricity used is for lighting and heating the private portion of the premises, the treatment is to credit such account on the trial balance with the appropriate proportion and debit the capital account on the trial balance.

Final Trial Balance

The final trial balance which I have mentioned should form in fact the complete nominal ledger, together with totals of personal accounts and bank and cash accounts. Quite a bit of work has to be done on this trial balance (e.g. postings from analysis sheets, accruals, etc.) and it is necessary therefore to take plenty of space – say ten to twelve lines for the capital account, a good number for purchases, and so on.

Analysis and other working papers should be referenced to the trial balance which, when finished, is the master of all working papers and from which it is possible to determine how every item has been made up.

It was, I am pleased to record, impressed on me most firmly very early in my articled clerk days that it is not the slightest bit of use producing any figure unless one can also show how the figure is arrived at. For example, to arrive at an omnibus accrual figure for the rent, rates and insurance account on a scrap of paper which is then dispensed with is quite useless, for in nearly every case, should one attempt to prove that the figure is correct such an exercise will simply prove that the figure is wrong. In any event it is slipshod work and time-wasting when the accounts are examined by the manager or partner concerned.

On the subject of working papers generally, however, I will speak again before I conclude.

The Accounts

With regard to the accounts which are produced from the final or master trial balance, very little need be said except to make a protest that in general it was my experience that insufficient care and attention was paid to the wording and layout of these accounts, on the basis that nobody saw them anyway, apart from the Revenue and the client. I have never been able to accept this as an excuse for slipshod work, even though I have more than once heard it given by people who ought to have known better. It takes really no longer to set out the accounts properly and when this is done the final result is something that a partner can sign with pleasure and a quiet mind. Be the fee £5 or £500 the client has a right to expect the best that the accountant can offer him.

On the question of presentation of fixed assets, the method as laid down in the Eighth Schedule to the Companies Act is well worth adoption in the accounts of sole traders and such people, since it does more fairly state the position.

Finally, the completed accounts should be compared with the accounts of the previous year (if any) and explanations obtained for all major fluctuations.

Also consider whether, without any great amount of additional work, the records which have been used could have been improved. In this connexion many accountants find it helpful to keep a private ledger for incomplete record jobs, and such ledger will, of course, contain summary bank and cash accounts and be completely self-balancing.

Working Papers

I have purposely said very little about working papers because I wish to make a special point of them.

In the first place, all working papers should be in ink. Pencilled scribbling only goes to shorten the life of anyone who has to refer to the papers at a later date.

All papers should be arranged in the logical order of the balance sheet and then, following after, the profit and loss account, followed finally by analysis papers and the like.

All papers should be numbered, preferably in red or some distinctive colour, and properly cross-referenced. All referencing should, of course, build up to the master trial balance, referred to under 'Final Trial Balance' above.

Working papers arranged in this manner should give all the information required accurately and are a sign of a good job well done. Further, it is a sign of a clear-thinking and well-ordered mentality which alone can produce accounts in which a partner can have confidence.

WEEKLY NOTES

The Institute's Annual Meeting

The seventieth annual meeting of The Institute of Chartered Accountants in England and Wales was held last Wednesday, May 7th, as this issue was going to press. We hope to publish the President's address together with a report of the proceedings at the meeting, in our next issue.

Following the Institute's meeting, the sixty-fifth annual general meeting of The Chartered Accountants' Benevolent Association was held, and we hope to publish a report of the proceedings of this meeting also in next week's issue.

The British Industries Fair

The B.I.F. opened this week with the usual last minute flurry to finish off the stands and instal the exhibits. This annual shop-window for Britain's goods is put together this year against a rather different economic background compared with 1951. Last year, which was a record affair in many respects, particular interest was centred on textiles which were then being called upon to make a special effort for the export drive.

This year, the world's textile industries are in a recession. One of the matters which industry and commerce will wish to obtain further clues about from this year's fair, is how far the textile recession is expected to go and to what extent it is beginning to spill over into other industries. Views of visiting foreign buyers and of British business men at Olympia and Castle Bromwich will be carefully listened to and their opinions distilled into an overall impression of visitors' ideas about trade prospects.

The fair takes place this year at a time when the balance of payments crisis is more acute than in May 1951, and when less succour for exports can be expected from textiles. The export drive is now relying increasingly on engineering goods. This may be a slightly smaller exhibition in terms of floor space than last year but it is something which other post-war B.I.F.s have been to only a limited extent. It is a selling exhibition.

Spring Recovery

If this country is to get anywhere near the target set by the Chancellor of the Exchequer for its balance of payments position this year, there will have to be a solid build-up in the spring and early summer. During that time the seasonal tide of external trade is moving in this country's favour. It will be recalled that the target is an ambitious one. The balance of payments position of the whole of the sterling area is to have achieved a surplus before the end of the year and this, in turn, means that Britain must be running a very favourable balance with the rest of the sterling area throughout 1952.

Speaking to the Association of British Chambers of Commerce last week, the Chancellor was able to point to a few favourable trends. There are signs, apparently, that the dollar and gold reserves have shown a further improvement since the end of March. In addition, there was an improvement of £160 million in total exports for the first quarter of 1952, of which one-third was due to a rise in volume. But these better figures reflect a large increase in sales to the rest of the sterling area. Sales to the dollar area in the first two months of this year were actually lower than last autumn. How serious this last development may be it is difficult to say, for much depends on the state of exports from the rest of the sterling area to the dollar area.

The Chancellor looked for assistance in improving this country's trade with non-sterling countries from the engineering industry and, indeed, it may yet be that this is the way to raise exports and so close the gap. The very fact that industries in this country, feeling disinflationary pressure, are forgoing their orders for new equipment to some extent is one means of releasing supplies of goods for export. But such transfers from the home to the export market show clearly how far the balance of payments position is being improved by mortgaging our industrial future. For not only is industry to some extent doing without equipment, it is also seeing it sold abroad to foreign competitors.

Colonial Development Corporation Losses

The Colonial Development Corporation continues to learn from experience in the time-honoured way, namely through the trading account. Last year, it is now disclosed, the Corporation lost just over £4·5 million compared with almost £3 million in 1950. Most of this severe increase in the deficit on a year's operations is a legacy from past adventurous policy, a policy which has been overhauled since the new chairman took over.

Some of 1951's losses were accounted for by the fact that certain undertakings became operational, as opposed to experimental, last year. Provision has also been made for anticipated losses on schemes now in hand which it is thought will prove to have been over-capitalized. Certain closing-down write-offs proved heavier than had been expected at one time. A case of this was the ill-fated Gambian poultry scheme.

It would appear from the report that the Corporation is taking to heart the lessons which its unhappy experience so far has suggested. All schemes are being examined to separate the duds from those which have a good chance of success – and this is being done with circumspection. The new brooms are sweeping in a careful and not merely in a wholesale fashion. The Corporation is also learning that it often pays to

gain the financial participation of the colonial government concerned and to use private enterprise as well. The dangers of direct managerial responsibility through a hierarchy apexed in distant London, are also, apparently, now acknowledged.

This is all to the good. What is past understanding is that there are plenty of administrators, accountants and managers in the colonies who have known these basic issues long enough. Learning the hard way has cost the Corporation to date nearly a quarter of its capital.

Training in Steel

Interesting developments have followed the steel industry's decision in 1948 to bring into operation, a systematic training scheme for its workers. The British Iron and Steel Federation set up a committee four years ago to deal with recruitment and training. Nine area training committees were set up and through this machinery, firms in the industry have been encouraged to adopt training schemes of an approved pattern. Behind all this work lay the industry's expectation that labour would be increasingly difficult to recruit unless it could see prospects of advancement and that the growing complication of steel technology required more system in training youngsters to become semi-skilled and skilled workers.

In 1938, the industry spent about £100,000 on training. Today it is probably spending £750,000 a year. The whole scheme has had to be developed with due regard to entrenched conservatism among workers, especially among the craftsmen, who hanker after the old, somewhat haphazard, apprenticeship arrangements.

Progress has been made in training young operatives for semi-skilled jobs: craft and technical apprenticeship schemes have been developed, and residential schemes have been instituted for foremen. This last is a most significant development, for the idea that the foreman should take an honoured place in a comprehensive training scheme is a novel one in some industries. Far too often he has been overlooked – and in other matters than training. An interesting development from the foremen's scheme has been a request from managers for similar courses, and these are to be tried out in the autumn.

Raw Cotton Buying

Changes were announced recently by the Government in the procedure for purchasing raw cotton. It has been decided to adopt the recommendations of the Cotton Import Committee and allow spinners to buy cotton direct without using the services of the Raw Cotton Commission. Spinners may exercise the option for all or only certain 'groups' of cotton required. Those who wish to buy American cotton will be able to obtain (subject to import licence procedure) a supply of dollars proportionate to what would have been expended had the Commission operated on their behalf. No legislation is needed to bring this modification of cotton buying into operation.

For the time being the efficiency of the Raw Cotton Commission has to be assessed within the framework of existing foreign exchange restrictions. Because of these, it has had to pursue a price and supply policy which would channel demand away from dollar cotton. For example, it has fostered non-dollar consumption of 'American'-type cotton. Given, too, its directive to make ends meet over a period of time, it has had at times to charge spinners what the traffic would bear so that they could have cotton of highly competitive price at the market level.

It has thus been exceedingly difficult to appraise impartially the Commission's work. Now that spinners may contract out a year at a time for certain 'groups' of cotton there will be competition of a sort between a state-sponsored corporation and private enterprise. Many commentators wished such a solution to be tried out in steel when it was nationalized. Here, in cotton, there may be a test case of efficiency with the one pitted against the other.

Colombo Plan: First Year

When the Colombo Plan was announced something more than a year ago, comment was 'realistic' and in many cases tinged with a certain amount of well-meaning scepticism. Much was said about the size of the task which confronted those who proposed generating sufficient economic activity in East and South-east Asia to raise the standard of living; and comparisons were made between that task and the amount of resources which sponsoring governments had allocated to the scheme.

Last week the first annual report became available. It is clear from this that a certain amount of progress has been made. Paradoxically, there has been no shortage of finance. The countries receiving aid under the plan had favourable external balances for the greater part of 1951 and were able to use their foreign balances for investment programmes. Much more limiting has been the supply of capital equipment and the opportunity of commencing paper plans when it was clear that to do so would force the pace of development and waste money.

Since the turn of the year, several eastern states have fared worse so far as their balance of payments position is concerned and finance may be more a limiting factor this year than last. Nevertheless it is encouraging that a coherent group of plans for using a flow of capital to the East and for ensuring at least a minimum flow of resources in accordance with those plans has been established. The certainty of some sort of flow of known volume, now backed up by a modicum of successful operations, is a basis for further development and is worth a world of good intentions.

FINANCE AND COMMERCE

While stock markets keep reasonably steady, business remains on a very small scale. Few investors of any description care to take positive action in markets until there is stronger evidence of improvement in the general economic situation.

Wadkin Accounts

Readers will remember a suggestion by Mr E. H. Grant (*The Accountant*, February 2nd) of a form of account in which main headings appear to one side of the figures and the detail on the other. It is rather interesting to see the idea so quickly adopted in the first accounts of Wadkin Ltd as a public company. We reproduce the company's accounts with the profit and loss account set out in this manner and statements from the 'extra-statutory' information which accompany the accounts. The statistics provide a yard-stick by which the results of the company from year to year can be measured.

The company is one of the principal makers of wood-working machinery and enjoys an international reputation. Its 10*s* shares were marketed just over a year ago. The results now presented are not as good as anticipated and forecast in the published statement but this, the chairman states, does not indicate any deterioration in the business and the board feels justified in payment of a dividend at the rate forecast in March 1951.

Apparently the needs of rearmament have in some measure contributed to the setback in profits last year. Certain sub-contractors were obliged to refuse renewal of contracts in order that their production could be turned over to rearmament work.

Point on Proxies

An amendment to the relevant article of association of Western Manufacturing Estate Ltd deals with the point regarding the validity of proxies which arose at an extraordinary general meeting of the company last year. The matter was reported in *The Accountant* of November 17th. The point in question was whether a proxy executed by an official of a corpor-

Profit and Loss Account
for the year ended December 31st, 1951

	Current Year 31.12.51 £	*Previous Year 31.12.50 £*	
1. Trading Profit for Year ..	278,245	*341,511*	
	30,994	*27,185*	Depreciation
	600	*600*	Audit Fee
	30,702	*32,814*	Directors' Salaries and Emoluments
Net charge against Trading Profit	62,296	*60,599*	
2. Total Profit before Taxation	215,949	*280,912*	
	58,000	*36,000*	Profits Tax
	70,000	*121,986*	Income-tax, Schedule D, 1952–53
Taxation ..	128,000	*157,986*	
3. Balance of Profit after Taxation	87,949	*122,926*	
	64,135	*54,102*	*Add* Balance of Profit and Loss Account from previous year
4. Total Net Profit available for allocation ..	152,084	*177,028*	
	40,000	*94,286*	General Reserve
			Dividends less Income-tax on Ordinary Shares 10s each:
	19,688	—	Interim 7½ per cent *paid*
	26,250	*18,607*	Final 10 per cent *proposed*
5. Total allocated	85,938	*112,893*	
6. Profit unappropriated	£66,146	*£64,135*	Carried forward

WADKIN LIMITED, Balance Sheet, December 31st, 1951

1950 £		£	£	£
388,[illegible]	**Issued Capital (Statement 3)** ..			500,000
	Capital Reserves			
—	Share Premium Account	112,232		
234	Other Capital Reserves	730		
			112,962	
	Revenue Reserves			
300,000	General Reserve	340,084		
25,000	Employees' Pension Fund	25,000		
			365,084	
64,135	Profit unappropriated		66,146	
				544,192
777,[illegible]19	**Total of Shareholders' Funds** ..			1,044,192
	Future Taxation			
	Income-tax on 1951 Profits due			
114,000	January 1st, 1953		70,000	
8,000	Taxation Equalization Account ..		17,334	
				87,334
£899,[illegible]19	**Total Capital, Reserves and Future Taxation**			£1,131,526

1950 £		£	£	£
199,208	**Fixed Assets (Statement 2)** ..			268,227
	Current Assets			
508,759	Stock and Work-in-progress at Directors' Valuation	612,1[illegible]		
299,140	Trade and other Debtors less provisions	303,445		
—	Tax Reserve Certificates	200,000		
266,562	Balance at Bankers and Cash in hand	197,440		
1,074,461			1,313,006	
	Deduct **Current Liabilities**			
194,893	Sundry Creditors and accrued charges	248,574		
163,200	Current Taxation – Income-tax up to 1951–52 and Profits Tax to date	174,883		
15,857	Proposed Final Dividend of 10 per cent (net)	26,250		
373,950			449,707	
700,511	**Net Current Assets** ..			863,299
£899,719	**Total of Net Assets**			£1,131,526

Statements 1, 2 and 3 on . . . form an integral part of these accounts.

Signed on behalf of the Board,
HOLLAND GODDARD, LEONARD AUSTIN } *Directors.*

Statement 1 not reproduced. – Editor.

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ation should, to be valid, be accompanied by evidence of authority to sign.

Mr S. R. Hogg, F.C.A., the company's chairman, tells shareholders that the company's solicitors advised that a large number of the proxies for that meeting given by companies who were shareholders would have to be rejected 'on technical grounds'.

The amended article provides that a proxy signed on behalf of a company which is a shareholder by a director, secretary, assistant secretary or deputy secretary may be treated as valid without the necessity for lodging the written authority of such persons to sign the proxy on behalf of the company which is a member.

Depreciation Policy

The preliminary profit statement from the directors of Guest, Keen & Nettlefolds Ltd indicates a change in depreciation policy in the 1951 accounts. The directors state that, in calculating the depreciation charged against profits, regard has been had to the reduced purchasing power of money.

The provision for depreciation in 1951 has therefore been made on the basis of current values instead of book values of fixed assets. This has involved a total provision against profits of £2,400,072, of which £1,055,236 has been transferred to a depreciation reserve and £1,432,836 has been written off fixed assets against £1,534,391 in 1950.

In the past three years the company's full accounts have been published on May 31st and a similar publication date is expected this year. The company is now in the process of employing considerable resources in new development schemes which, a year ago, had been sanctioned to the extent of £12 million.

Money Market

Treasury bill applications on May 2nd totalled £326,770,000, and bidding at £99 8*s* 3*d* the market obtained 35 per cent of its requirements of Tuesday to Saturday maturities. The average discount rate was £2 6*s* 11·03*d* per cent, and this week's offer is increased to £230 million. This is the highest amount offered since the first change in the Bank Rate. There is no call against Treasury deposit receipts.

WADKIN LIMITED

STATEMENT 2

FIXED ASSETS as at December 31st, 1951

	Cost		Accumulated Depreciation to Date		Balance of Cost	
	1951 £	*1950 £*	1951 £	*1950 £*	1951 £	*1950 £*
1. Freehold Land and Buildings	176,557	*128,751*	35,069	*29,998*	141,488	*98,753*
2. Leasehold Property.. ..	3,621	*3,621*	1,000	*750*	2,621	*2,871*
3. Plant and Machinery ..	299,081	*252,675*	178,523	*158,910*	120,558	*93,765*
4. Motor Vehicles	16,457	*14,505*	12,897	*10,686*	3,560	*3,819*
Totals	£495,716	*£399,552*	£227,489	*£200,344*	£268,227	*£199,208*

Note. – Fire Insurance Replacement Value of Fixed Assets: £823,170.

STATEMENT 3

AUTHORIZED AND ISSUED CAPITAL as at December 31st, 1951

	1951		*1950*	
	Authorized £	Issued £	*Authorized £*	*Issued £*
5 per cent Cumulative Redeemable Preference Shares £1 each	—	—	*100,000*	*100,000*
Ordinary Shares, £1 each	—	—	*400,000*	*288,300*
Ordinary Shares, 10*s* each	1,000,000	500,000	—	—
	£1,000,000	£500,000	*£500,000*	*£388,300*

On March 8th, 1951:

(1) The whole of the preference and ordinary shares were subdivided into 10*s* shares.

(2) The preference shares were converted into ordinary shares.

(3) The authorized capital was increased to £1,000,000 by the creation of 1,000,000 new ordinary shares of 10*s* each.

(4) 23,400 new ordinary shares of 10*s* each were issued at par and fully paid.

(5) 200,000 new ordinary shares of 10*s* each were issued at 21*s* 6½*d* each and fully paid.

STATEMENT 4

TRADING STATISTICS

		1951	*1950*
		£	*£*
Sales	Home	1,027,034	*960,227*
	Export	581,249	*593,321*
	Total	1,608,283	*1,553,548*
Net Profit (after Taxation)		87,949	*122,926*
		s d	*s d*
Per £ of Sales	Net Profit (after taxation)	1 1	*1 7*
	Profit invested in the business	6	*1 5*
	Dividends (net) paid or proposed	7	*3*
Per 10s Ordinary Share	Net profit (after taxation)	1 9	*
	Dividends (net) paid or proposed	11	*
	Working Capital (net current Assets)	17 3	*
	Capital employed (total net Assets)	22 8	*
Number of Employees		638	*640*
Number of Shareholders		428	*

* Comparative figures not available due to altered capital structure.

STATEMENT 5

EXPENDITURE OF THE COMPANY'S INCOME

	Expended per £ of sales 1951	*1950*
	s d	*s d*
1. Suppliers of		
Raw Materials, Goods and Services	13 3	*12 6*
2. Employees		
Wages, Salaries, Pensions (net after Tax) and Welfare Services ..	3 3	*3 2*
3. Shareholders		
Dividends (net after Tax)	7	*3*
4. Inland Revenue		
Company Taxation	1 1	*1 10*
P.A.Y.E.	5	*4*
Tax on Dividends	6	*3*
5. Company		
Depreciation, Development, Renewals and Retained Profits	11	*1 8*
	20 0	*20 0*

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Managing Director's Commission

SIR, – It has been interesting to read the various comments on this problem.

I am not sure that I have interpreted the editorial note correctly; but I think it means that, just as the total commission must be based on figures amounting to less than the total net profit, so, in the case of the first £10,000 of net profit, it may be correct to base the commission of 5 per cent on a figure less than £10,000 (i.e. on £10,000 less the 5 per cent commission).

Should this be the meaning intended, I would submit the following argument for consideration. The agreement states that, for the purpose of calculating the amount of the commission, the net profits shall be the amount remaining after charging the commission. Here we have the definition of the net profits. Let us substitute this definition for the expression 'net profit' in the provision in the service agreement. The latter then reads as follows:

'. . . at 5 per cent on the first £10,000 of *the amount remaining after charging the commission* and at 10 per cent on any *amount remaining after charging the commission* in excess of £10,000.'

It seems to me that this 'substituted' version removes ambiguity from the agreement and establishes that the commission must be calculated on the basis shown in my letter published on April 26th – unless, of course, as the editorial note implies, there should prove to be anything more precise in the service agreement of which we are not yet aware.

Once this is accepted, Mr T. S. M. Gard's calculation – which, I find, is 'Puzzled Calculator's' second calculation in a different guise – cannot be considered correct unless amended to the following:

	£
1/21st of £15,000	714
10/231sts of (£15,000 – £10,000 – £500) ..	195
	£909

'R. S.', in his letter, appears to go wrong in letting £x equal the net profit which will leave £10,000 after deducting 5 per cent commission, and then taking the commission as 5 per cent of £x instead of as 5 per cent of £10,000. By so doing, he calculates the 5 per cent commission on more than £10,000. But for this, his solution would be the same as 'Puzzled Calculator's' first one.

Yours faithfully,
Boston, Lincs. LEONARD HUGHES.

P.S. I trust the managing director concerned will forgive me if, in the interests of accuracy, I seem bent on securing that he gets the lowest possible amount of commission!

Weaving Plant: Provision for Replacement

SIR, – I have read your 'Puzzled' correspondent's letter published by you on April 12th, and agree that in view of the non-wasting nature of the plant, a book value of 10 per cent of the present-day value is conservative enough. Any further provision for depreciation would amount to the creation of a secret reserve (or to enlarge the existing one).

In these circumstances I respectfully submit that the plant should be revalued and the surplus carried to a capital reserve.

I note your correspondent's remarks regarding the small risk of obsolescence and the statement of the directors of the company concerned that there is no prospect of the necessity to replace the plant. However, no one can foretell the future (particularly upon the matter of the obsolescence of plant) and I suggest that the above-mentioned capital reserve be supplemented from time to time out of profits to make sure that there is a fund available to meet enhanced replacement costs should it ever be necessary to buy new plant.

Yours faithfully,
M. H. DUBOIS.
Sanderstead, Surrey.

Rising Prices due to Inflation

SIR, – I would like to amplify suggestions made by me in a letter which appeared in your issue dated April 26th, 1952.

(i) At the commencement of the first period to be dealt with in the manner suggested, the business will be revalued.

(ii) 'Capital employed', for this purpose, means the total of items constituting 'capital, reserves, and surplus'.

(iii) The figure of capital employed will be adjusted year by year, by reference to the retail price index. If it is considered that this index does not give a fair indication of the general rise or fall in the purchasing power of the monetary unit, the Board of Trade may be prepared to publish an overall monetary purchasing power index.

(iv) The adjustment is proposed for all purposes, including taxation.

The two following examples show the system in operation.

Capital employed at commencement of 1st period:	£4,000
'Profits' computed on 'historical cost' basis:	£2,000 p.a.

Index:

	£
At commencement of 1st year	100
At end of 1st year	120
,, ,, ,, 2nd year	110
,, ,, ,, 3rd year	100

Example 1. (*Profits fully distributed*)

	Capital employed	*Adjustment account*	*Profit*
	£	£	£
1st year	4,000	*Cr.* 800	1,200
2nd year	4,800	*Dr.* 400	2,400
3rd year	4,400	*Dr.* 400	2,400
4th year	4,000 (1st year position back again).		

Example 2 (*No profits distributed*)

1st year	4,000	*Cr.* 800	1,200
2nd year	6,000	*Dr.* 500	2,500
3rd year	8,000	*Dr.* 727	2,727
4th year	10,000		
		Debit balance 427	

The debit balance on 'Adjustment account' represents the increased purchasing power of sums retained out of profits. (1st year's profit £200; 2nd year's profit £227.) These items will be written back to profit and loss account if the 1st and 2nd year's profits are subsequently distributed.

The debit balance will appear as a deduction from 'unappropriated profits' in the balance sheet.

Yours faithfully,

R. N. BURTON, A.C.A., F.R.ECON.S.

Prestwick, Manchester.

SIR, – Dear oh dear! How mesmerized we are become with that mystical, magical symbol – the £. Money is a means, not an end in itself: there is no 'world of money' which is separate from the 'world of goods' – you might as well insist on the distinction between the world of inches and the world of distance; on a world of pints against a world of how much beer you've got; on the world of days and the world of time between breakfast yesterday and tomorrow.

If, with a sudden rush of blood to the head, our Government became metrically-minded, and ordained that in future a foot should be deemed to be ten inches long (the inch remaining constant), would you claim that because I had a chimney thirty feet high when I built it years ago, now, when I replace it, I should make a profit of six feet? Call it thirty-six new feet, or thirty old feet – call it what you will, but don't become so wrapped up in the magic of 'the Foot' that you can't see how high the chimney is. The mere fluctuations in the unit of measurement don't of themselves conjure up profits.

And so with our unit of monetary measurement. If the £ depreciates (or appreciates, it doesn't matter which) don't try and mess about with the item we're measuring: hacking a bit off here and there with LIFO, base stocks, replacement costing, and so forth, to make the item fit the ruler. There's nothing wrong with the stocks or the plant in themselves: it's the unit of measurement which needs correcting.

And therefore, sir, I would most certainly support Mr R. N. Burton's suggestion (Correspondence columns of *The Accountant*, April 26th) for a 'sterling purchasing power adjustment account' – a 'profit or loss on internal exchange' – anything to attack the root of the trouble instead of this haphazard lopping at the branches. And with the very greatest deference to Sir Harold Howitt, I would respectfully suggest that this is not 'yet another manner' of dealing with the problem. It's been dealt with on these lines for ages. *All* accountants have dealt with it for ages. Ever since we got beyond our infancy of knotched sticks, we've sedulously been removing the effects of currency fluctuations in connexion with foreign branches.

For instance, thirty years ago, when the German mark in which we measured German sales ceased in any way to tally with the German mark in which we expressed our plant and machinery, we produced accounts in which the two different marks were converted at a different rate, and the profit on the sale of a couple of eggs in no way wrote off all our capital investment.

The collapsing mark and the slowly-dwindling £ are not the *same* problem, but they're similar, and the procedure adopted for the one can so easily be adapted to the other. The 'index of inflation' (the equivalent of the 'foreign exchange rate') is, agreed, a stumbling-block – but is it insurmountable? We have the figures in *Hansard* once a month: we have the cost-of-living index (warped as it is by subsidies and manipulations): we have, for a nominal subscription, a complete and comprehensive series of indices covering every possible or probable category of business assets published by *The Economist* Research Unit: maybe none of them utterly perfect – but is our present system so much better? Must we wait until industry's sucked dry before we come out of the clouds and admit that the £ is a means, not an end in itself? Ask your clients; ask your bread-and-butter; ask the man who's just had to borrow another few million because he's made a 'profit'.

I have the honour to be, sir,

Your obedient servant,

Bournemouth. JEFFERY ENGLISH.

Accountancy and Inflation

SIR, – Whilst recognizing the importance of making recommendations to the Royal Commission on Taxation, we must realize that such recommendations could not be effective before several years hence, if ever.

Inflation has already cost so much real loss to stockholders through being ignored in accountancy that any method that can be employed to prevent

this, should be taken immediately. The argument about the correct or best method could be left to a later date.

If the societies and institutes of accountants would recommend the principle of 'taking inflation into accountancy', their members could be allowed for the time being to agree with their clients on the system best suited to the particular business involved.

Yours faithfully,
J. M. JESSIMAN.

London, EC3

'What do we Expect from Economists ?'

SIR, – It is regrettable that Mr Briscoe, whose article is published in your issue of April 26th, and who seems to have a sincere desire to preserve 'the orthodox method of calculating profit', should write as he has.

Generalizations are sometimes regarded as a necessary evil, especially in short articles, but how audacious it is of Mr Briscoe to summarize Adam Smith's inquiry and subsequent findings into the nature and causes of the wealth of nations, contained in five books, into four lines; and then to state blandly that 'in the succeeding 150 years this country proved that he (Adam Smith) was right'. His statement is made regardless of the swings from periods of prosperity to periods of industrial and agrarian unrest, and extreme distress, and regardless of varying fiscal policies pursued during those eventful decades. The same may be said of Mr Briscoe's paragraph on the teachings of David Ricardo.

Even these half-truths might be overlooked were it not for Mr Briscoe's presumption in stating, without qualification, what the late Lord Keynes would have said, or should I say 'thundered'.

No doubt economists will be pleased to learn that they have intelligence, though lack wisdom. I dare say some may reciprocate the veneration and respect which Mr Briscoe claims accountants have for economists. I can only recommend that the respect of economists for Mr Briscoe's ideas will be enhanced, if, when he writes again, he writes rather more on accountancy and rather less on political economy.

Yours faithfully,
H. M. F. BARNES, B.A., F.R.ECON.S.

Chipstead, Surrey.

Lord Latham's Presidential Address

SIR, – You have already given, justifiably, much space to historical versus replacement cost arguments. A thirteen-hundred word reprint of Lord Latham's remarks in his presidential address to the certified accountants on this subject in your issue of May 3rd does not seem to be a very helpful contribution.

Lord Latham says that he is commenting (helpfully?) on whether replacement or historical cost should be the basis for the provision of depreciation of capital assets. Differences, he correctly asserts, exist between professional bodies here and abroad and to help the business world we should resolve these differences. It would be splendid if the Inland Revenue would agree not to collect tax on profits which had been made but which were not considered to be distributable because they would probably be needed to replace assets.

However, all this is very difficult, says Lord Latham. The solution should not be arbitrary, but it would be a good thing to value assets due for replacement at an indeterminable date in the future by reference to the fixed asset replacement price indices now being published under the joint aegis (aegis is good but joint is better) of the Association and *The Economist.*

This method of ascertainment of a known liability is surely somewhat arbitrary but Lord Latham says it would be better than a definite appropriation of available profits to meet a liability which a prudent directorate know exists but would rather not attempt to estimate on accountancy principles, whether established or not.

Underlying Lord Latham's remarks is the implication that the whole point of all this is to persuade the Inland Revenue, by the presentation of a united front, that industry should be allowed to retain profits intended for replacement purposes.

From many points of view this may be desirable, but it is not the point at issue for accountants. I think that the Chartered Institute said the last word in their recommendation XII, and, as a breath of fresh air, may I quote –

> 'It is, however, clear that in Great Britain the effects of the rise in prices when combined with the effects of the basis and scale of taxation cannot, unless profits are sufficient, be met by changes in accounting practice. Parliament alone has the power to mitigate these consequences by changes in the tax law.'

Yours faithfully,
London, WC2. J. D. BAILEY.

Depreciation

SIR, – It is generally recognized that the current attitude of the Revenue authorities towards depreciation is very unsatisfactory.

May I request the hospitality of your columns to pose a problem and to inquire whether any members of the Institute have recent practical experience which would throw some light on what would occur in such a case. The figures are hypothetical and chosen simply to illustrate underlying principles.

Let us suppose a company has a machine shown in their balance sheet at cost £1,000 less depreciation £250. The present replacement value is in the region of £3,000 and the asset is insured for that figure. A total loss occurs. Would the insurance company pay the cost of a new machine or only the estimated current value of the asset based on cost less depreciation? If the former were true, what adjustments should be made in the balance sheet? What-

ever these were it would seem that the company's position in relation to that particular asset would be much improved. But if the latter course were followed it would appear that the company has no prospect of replacing the asset except by use of fresh capital, seemingly an absurd situation.

Would it in any way assist in convincing the Revenue authorities of the inadequacy of current provisions if a separate stabilization account in respect of fixed assets were raised in a balance sheet? Transfers to the account would be directly linked to variations in the Interim Index of Retail Prices or some other criterion which would better estimate changes in the value of that money which is to be used for replacement of fixed assets.

Money is intended to be not only a medium of exchange but also a store of value. In recent years, for various reasons, it has ceased to have any real stability of value. This is the root of the problem.

Many companies have sought by means of reserves, secret or otherwise, to offset this depreciation in the value of money, but I feel that if some suggestion such as I have advocated could be generally adopted the Revenue authorities could no longer avoid recognition of a reality which has long been apparent to others.

I am, Sir,
Yours faithfully,
London, W9. S. N. DAVIS, A.C.A.

The Inspector of Taxes Interrogates the Owner of the Pedigree Herd

SIR, – I sent to a farmer client a copy of your issue of April 19th containing the article describing 'Mr Five-Barred's' interview with his local Inspector of Taxes.

The farmer has written me as follows:

'The only difference between "Mr Five-Barred" and myself is that I am unlikely to make any profit from the sale of any of my stock – also my bull's name is "Futility" not "Nobility"!'

Yours truly,
London, EC4. DONALD R. COLE.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

Townsend *v.* Electrical Yarns Ltd

In the High Court of Justice (Chancery Division)
February 29th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Cessation – No revision of assessment for previous year – Sale of machinery and plant in that year – Balancing charge made for previous year – Separate assessment for balancing charge – Whether amount of balancing charge should be added to trading profit for the year of sale – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 6 *– Finance Act,* 1926, *Section* 31 (1) (*b*) *– Income Tax Act,* 1945, *Sections* 17, 22, 55 (3).

The respondent company ceased trading as a cotton spinner on December 21st, 1949, and the assessment to income-tax for 1949–50 was made in the amount of the actual profit for the period from April 6th, 1949, to December 21st, 1949. The amount of the assessment for 1948–49 was £3,038, the amount of the actual profit of that year being £2,578. In 1948–49 the respondent sold some plant and machinery, and thus became liable to a balancing charge on a sum of £600.

The respondent contended that under Section 55 (3) of the Income Tax Act, 1945, the amount of the balancing charge should be added to the trading profit for 1948–49, and that the amount on which the balancing charge was to be made should not be separately assessed for that year. The effect of this contention would be to bring the amount of the profit of 1948–49 up to £3,178, that is to say, £140 more than the assessment for that year; and the respondent agreed that an additional assessment in that sum should be made for 1948–49. The General Commissioners decided in favour of the respondent.

Held; that Section 55 (3) of the Income Tax Act, 1945, required that a separate assessment should be made for the relevant year in the amount on which the balancing charge could be made, as opposed to adding that amount to the trading profit of the year; and that, therefore, the General Commissioners' decision was not correct.

Moschi *v.* Kelly

In the High Court of Justice (Chancery Division)
February 26th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Excess profits tax – Back duty – No evidence by appellant – Fresh capital introduced into business – No explanation of source of money.

Estimated assessments to income-tax and excess profits tax were made on the appellant for years between 1940 and 1945, and an appeal against these assessments was heard by the General Commissioners in 1948. The appellant came to the United Kingdom as a refugee from Germany in about 1933, and set up as a manufacturer of underwear. By 1944 he had introduced fresh capital into his business to the extent of £34,000, and he also possessed diamonds and jewellery worth £10,000. Various explanations had been given by the appellant from time to time as

to the way in which he had become possessed of these assets.

The appellant had debited in his trading accounts a number of sums as wages to his wife. The credits for these sums were to the appellant's drawing account, but there was no evidence at the appeal from either the appellant or his wife in relation to them.

The appellant did not attend the hearing of the appeal. The General Commissioners decided that the sums in question were business receipts, that the sums debited for wages to the appellant's wife were not allowable deductions, and they confirmed the assessments with certain adjustments.

Held, that the General Commissioners' decision was correct.

Harvey *v.* Caulcott

In the High Court of Justice (Chancery Division)
February 26th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Houses built and let by builder – Subsequent sales of houses – Whether sale money receipts of builder's business – Income Tax Act, 1918, *Schedule D, Case I.*

The appellant carried on business as a builder, and between 1927 and 1929 he built twelve shops on a leasehold site that he owned. Five of the shops were sold immediately, and another five were sublet to the appellant's wife, who raised money thereon by way of mortgage, and this money was used in the appellant's business. Another of the shops was assigned to the appellant's mother, and the remaining one was still retained by the appellant.

Two of the shops, which had been sublet to the appellant's wife, were retained for about twenty years. They were taken out of the appellant's business accounts almost from the beginning, and private accounts were kept showing the rents received. One of these shops was bomb-damaged during the war, but was temporarily repaired; and the appellant occupied part of it for the purpose of his building business. After the war the appellant received an offer to purchase the shop, and he sold the shop at a surplus. The tenant of the other shop ceased to carry on business, and the appellant received an offer for it, which he accepted and thereby again made a surplus. There was evidence that the appellant had never treated these two shops as trading stock, but had always intended to retain them as investments. There was also evidence that during the twenty years that he did retain them, the appellant had refused offers to purchase the shops. The sums received from these two sales were used by the appellant in his business.

In 1939 the appellant purchased a house for his foreman, and the latter lived in the house as a tenant. He was killed in the war, and his widow lived on in the house until she died in 1948. The appellant then sold the house and realized a surplus.

The Inland Revenue contended that the sums representing the surpluses arising from the sales of the two shops and the house were receipts of the appellant in his business as a builder. The General Commissioners decided in favour of the respondent.

Held, that there was no evidence that the shops or the house were a part of the appellant's trading stock as a builder, that the appellant had discharged the burden of showing that the three sums in question were surpluses arising from sales of investments, and that the General Commissioners' decision could not stand.

Phillips *v.* Whieldon Sanitary Potteries Ltd

In the High Court of Justice (Chancery Division)
February 29th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Embankment between factory and canal – Subsidence of embankment – Construction of new embankment on top of old one – Whether cost capital expense or repair – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*d*), (*f*).

The respondent carried on a pottery business in a factory abutting on to a canal. The factory was purchased in 1930, and at that time there was an embankment of bricks and earth between the foot of the wall of the factory and the canal, and this embankment kept the water out. Subsequently, as the result of mining operations, the foundations of the factory, and also the embankment, subsided, so that the water of the canal came up to the wall of the factory. Later the water seeped through the wall and interfered with manufacture. After a number of attempts to deal with the existing embankment had failed, a line of interlocking piles was driven into the canal bed a few feet away from the wall and a new embankment of concrete and iron was built to a height of about two feet above the level of the water. The cost of this new embankment was £2,333.

The respondent claimed that this sum was deductible in computing its profits, but the Inland Revenue contended that it was capital expenditure, and, therefore, not allowable. The General Commissioners decided that the construction of the new barrier was a replacement, and that the £2,333 was a deductible expense for tax purposes. In the Chancery Division it was also contended on behalf of the respondent that the £2,333 was the cost of repairs to the original embankment.

Held, that the £2,333 was not the cost of repairs, and that it was a capital expense.

McIntosh *v.* Manchester Corporation

In the High Court of Justice (Chancery Division)
March 5th, 1952
(Before Mr Justice VAISEY)

Income-tax – Capital allowance – Industrial building or structure – Expenditure on preparing land to receive foundations – Work consisting of cutting – Income Tax Act, 1945, *Sections* 1, 2, 8 (1), 14 (1).

The respondent owned extensive works as a water undertaker, including three reservoirs and many miles of conduits, aqueducts, pipes and culverts. It was admitted that these works constituted an

industrial building or structure. In computing the amount of the initial allowance, the Inland Revenue excluded expenditure on digging land for the reception of parts of the apparatus of the undertaking.

It was contended on behalf of the appellant that the word 'cutting', in the proviso to Section 14 (1) of the Income Tax Act, 1945 (which prevents work consisting of cutting or tunnelling from ranking for an allowance, but excepts work on preparing land for the foundations of buildings 'not being work which consists of cutting or tunnelling') meant the breaking of the surface of land. On behalf of the respondent it was contended that the word meant the making of a cutting through land. The Special Commissioners decided in favour of the respondent.

Held, that the word was descriptive of a process applied to land, and not of the results or consequences of that process, and that, therefore, the expenditure in question could not be included for the purpose of computing the initial allowance.

Wood *v.* Black's Executors (The Public Trustee)

In the High Court of Justice (Chancery Division)
March 5th, 1952
(Before Mr Justice VAISEY)

Income-tax – Realization of assets – Several businesses – Land development – Profits arising during period of realization – Whether trading profits – Income Tax Act, 1918, Schedule D, Case I.

The deceased died in June 1942, and probate of his will was granted in August 1944. The deceased had carried on a trawling business, a cold store business, a coal and engineering business, a business of buying and selling stores, and also a business of land development. The will empowered the trustees to wind up the businesses, and provided that until they were wound up they should be carried on under the management and control of a person whose name was not stated in the will.

The Public Trustee, together with the person who had managed the deceased's businesses, were appointed executors and trustees, and were also appointed joint administrators pending litigation for the purpose of completing a sale of thirteen trawlers and of realizing sufficient assets to pay the debts. In January 1943 letters of administration pending litigation were made to the same persons, and they proceeded to realize the assets. The trawlers were sold at different dates up to May 17th, 1943; the cold store business was sold on June 27th, 1943, as a going concern; the coal wagons and lighters were sold by September 13th, 1943, and the business of buying and selling stores was wound up on September 30th, 1943. The other assets of the coal and engineering business were sold on December 31st, 1943, but the real estate was not completely sold off until 1949.

Between the date of the deceased's death and the respective dates of realization, about £29,000 of income was received. All the staff, who were employed in the businesses before the date of the deceased's death, continued to be so employed after his death apart from occasional changes. The trading accounts continued to be formulated in the same way.

It was contended on behalf of the respondent that there was no liability to tax under Case I of Schedule D, in that the activities of the administrators pending litigation did not constitute a trade, and were merely incidental to the winding up of the estate. It was contended on behalf of the appellant that the same trades had been carried on from the date of the testator's death and that the £29,000 was taxable as the total of the profits therefrom during the period under consideration. The General Commissioners decided that the businesses continued, but only for the purpose of winding them up, and that therefore there was no trading by the administrators.

Held, (1) that the facts set out in the stated case amounted to a finding of fact by the General Commissioners that trading was carried on by the administrators; (2) that the profits in question were subject to income-tax; (3) that there had been no trading in estate development.

Keiner *v.* Keiner

In the High Court of Justice (Queen's Bench Division)
February 27th, 1952
(Before Mr Justice DONOVAN)

Income-tax – Yearly payments under agreement made in United States – English judgment for arrears – Payer resident in United Kingdom – No assets in United States – Whether payer entitled to deduct tax – Income Tax Act, 1918, General Rules 19, 21.

By a deed executed in 1939 in the State of New Jersey, the plaintiff agreed to make to the defendant, his former wife, payments calculated by reference to any deficiency in her income below a stated amount, which was stated in dollars. The deed was made in New Jersey, but the husband was already ordinarily resident in the United Kingdom, and continued to be ordinarily resident there. The agreement also provided for the husband transferring to the wife certain assets of his in the United States, whereupon he no longer possessed assets in that country.

In 1947 the defendant instituted an action in the High Court for the payment of arrears due under the agreement, and she obtained judgment for £6,000 in respect of arrears. In accordance with the judgment the plaintiff paid £2,000 at once, and did not deduct tax therefrom, but he claimed to be entitled to deduct £2,754, in respect of income-tax on the whole £6,000, from the balance of £4,000. In consequence of the defendant's objection to the deduction of tax, the plaintiff instituted this action in the High Court in 1951 for a declaration that he was entitled to deduct the £2,754.

Held, (1) that the proper law of the agreement was the law of the State of New Jersey; (2) that, therefore, United Kingdom income-tax could not be deducted from the amount due under the English judgment.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

EXTRACTS FROM THE ANNUAL REPORT FOR 1951

The thirty-third annual general meeting of members of The Institute of Cost and Works Accountants will be held on Saturday, May 17th, 1952, at *The Palace Hotel*, Buxton, Derbyshire. We reproduce below extracts from the report of the Council for the year ended December 31st, 1951.

Membership

During the year, 342 persons were admitted and one person readmitted to associateship; 37 associates were admitted to fellowship; 12 members died and 22 members resigned; 1 membership lapsed under Bye-law 23, leaving a net membership at December 31st, 1951, of 3,293.

Registered Students

The number of registered students at the beginning of the year was 10,539, and at the end of the year 11,188. The net increase was accounted for by the addition of 2,063 new registrations and by reductions occasioned by 342 transfers to associateship, 264 resignations, 7 deaths, and 801 lapsed under Bye-law 31.

Comparative Figures

The comparative figures of members and registered students at December 31st for the past six years are given hereunder:

As at December 31st	*Members*	*Registered Students*	*Total*
1946	1,996	7,129	9,125
1947	2,180	8,788	10,968
1948	2,415	9,816	12,231
1949	2,710	10,437	13,147
1950	2,985	10,539	13,524
1951	3,293	11,188	14,481

Examinations

The introduction of the new examination syllabus, which will operate for the first time at the June 1952 examinations, has meant a considerable increase in the volume of correspondence dealt with by the examinations department. A comprehensive reading list for the new examination syllabus has been sent to all registered students and to tutorial bodies. The usual examinations were held in June and December 1951, at which 6,947 candidates presented themselves. The comparative figures for the past six years are as follows:

1946	1,915	1949	4,517
1947	3,054	1950	5,767
1948	3,908	1951	6,947

Overseas examination centres have continued to be held twice yearly as in the case of home centres; 597 overseas candidates sat for the examinations in June 1951, and 596 in December 1951.

The combined results of the examinations held in June and December 1951 are as follows:

	No. of Candidates	*Passed*	*Failed*
Preliminary (June 1951 only)	28	6	22
Intermediate, Part I	1,630	739	891
Intermediate, Part II	1,976	863	1,113
Intermediate, Parts I and II	621	227	394
Final	2,692	735	1,957
	6,947	2,570	4,377

Fellowship in Management Accountancy

In September 1951, the Council approved for submission to members at an extraordinary general meeting a scheme to establish a new examination for fellowship in management accountancy. The growing importance and use in recent years of management accounting for the efficient control of operations in any undertaking, with increasing emphasis on the costing function, calls for high qualifications and experience, which the new fellowship of the Institute is intended to connote. There is undoubtedly a national need for a qualification acceptable to industry and the profession as the hall-mark of overall competence in management accountancy. The establishment of the fellowship of the Institute along these lines is intended to meet this need.

Branches

Full programmes of meetings, lectures, public meetings, joint meetings with members of kindred societies, and visits to factories and works, were carried out by all branches, sub-branches and students' societies of the Institute. The Council desire to record thanks to all lecturers and speakers who have contributed to the high level of the papers and subsequent discussions. To meet the needs of increased membership of the branches in the Greater London area, a reorganization of the branch structure was approved by the Council. A co-ordinating committee has been set up in Area No. 1, London and South-east England. The London and District Branch (which meets in Central London) continues to function as hitherto; the former sub-branches at Bedford, Harrow and Ilford have become full branches. The Harrow Branch has sponsored a small group of members and registered students at High Wycombe, and the Ilford Branch have formed a similar group at Enfield. The establishment of this latter unit completes the ring of Institute activities on the perimeter of Greater London. The group at Grantham has ceased activities for lack of support in the district, and a new group has been formed at Burton-on-Trent. The Dundee Students' Society has now become a sub-branch of the Edinburgh and District Branch. The Glasgow Branch has promoted new groups at Motherwell and Falkirk, known respectively as the Lanarkshire and Stirlingshire groups. The South Wales and Monmouthshire branch was responsible for the formation of a group at Swansea.

Union of South Africa Branch

At the request of the Union of South Africa Branch and on behalf of the Council, Mr Stanley J. D. Berger, Director of the Institute, travelled to South Africa in September for the purpose of visiting the South Africa Branch, sub-branch and students' societies. In his tour he was able to visit every centre of activity in the Union and Southern Rhodesia. In the Union he was received by the Minister of Economic Affairs and by various other Ministries and Government officials, and in Southern Rhodesia by the Prime Minister. In addition, he made many other valuable contacts and addressed numerous public and private meetings. As a result of this visit, a complete reorganization of the Institute's activities in South Africa is taking place which, it is believed, will add strength and status to the Institute in these rapidly developing countries.

Regional Conferences

Four regional conferences were held during the year, viz.:

Leicester, March 10th. (*a*) 'Some considerations in the allocation of overheads', by A. Holdsworth, B.COM., F.C.W.A. (*b*) 'Trends in organization and accounting in North America', by F. Simmonds, F.C.W.A., A.M.I.I.A.

Liverpool, September 29th. (*a*) 'Stores control in practice', by J. W. Fewlass, A.C.W.A., A.C.I.S. (*b*) 'Integration or reconciliation?' by A. Marshall, A.C.W.A.

Birmingham, October 13th. (*a*) 'Standard costs as applied to job costing', by C. E. Power, A.C.A., F.C.W.A. (*b*) 'Material handling and its effect upon costs', by K. B. Warwick, A.M.I.MECH.E.

London, December 8th. The problems of the expanding business: (*a*) 'The personnel problem', by A. F. Stewart (B.I.M. Personnel Division). (*b*) 'The production problem', by F. G. S. English, M.I.PROD.E. (*c*) 'The financial and accounting problem', by W. Coutts Donald, C.A., F.C.W.A.

There is no doubt that these one-day conferences are appreciated by members and registered students and the Council are grateful to the speakers and the local organizing committees.

Twenty-second National Cost Conference

The 1951 National Cost Conference took place in London during the period of May 31st to June 2nd. The proceedings commenced with a reception for branch secretaries and their wives in the Council Chamber at 63 Portland Place. Subsequently, a party of nearly 500 boarded three chartered motor launches at Westminster for a river cruise on the Thames, enjoying the spectacle of the special decorations and illuminations staged for the Festival of Britain. On the following day, at *The Dorchester Hotel*, the proceedings commenced with the presidential address by Mr Lawrence W. Robson, F.C.A., F.C.W.A., followed by the technical session at which Mr R. Warwick Dobson, C.A., F.C.W.A., introduced the Research and Technical Committee's paper on 'The effect of changing price levels on the presentation of accounting statements and on cost ascertainment'. At the luncheon, attended by over 450 people, the guest speaker was the then Minister of Supply, the Right Hon. George R. Strauss, M.P. At the afternoon session three papers were given on 'The cost accountant's contribution to increased productivity, as it affects (*a*) top management, (*b*) production management, and (*c*) shop supervision'. The speakers were Sir Charles Bartlett, Managing Director of Vauxhall Motors Ltd, Mr J. Hallifax, Production Superintendent at the High Wycombe Works of Hoover Ltd, and Mr C. J. Keedy, Production Assistant Manager at the Royal Ordnance Factory at Glascoed. The Institute's annual banquet at *The Dorchester Hotel* was attended by over 500 persons, including many distinguished guests.

Research and Technical

The Research and Technical Committee prepared for presentation at the National Cost Conference in June 1951 a draft publication based on the results of the planned study by the branches of the accountancy of changing price levels. Following discussion at the Conference, the Committee undertook the work of revising the book for publication and also preparing a less detailed booklet on the subject. During the year, branches continued work on the planned study subject of 'Employee remuneration and incentives'. The Joint Committee of the Institute and the Institution of Production Engineers on the measurement of productivity has continued its work and published in September 1951 a further report under the title of 'Measurement of productivity – applications and limitations'. This brochure gave rise to much favourable comment. A further report dealing with work study is in preparation. During the year a Joint Committee of the Institute and the Institute of Municipal Treasurers and Accountants was set up, to conduct research into cost accounting as affecting local and public authorities. As a first step this Committee has begun an investigation into transport costing, and is enlisting the help of a number of members of both bodies in various parts of the country. Work continued on the revision of 'Costing terminology', and by the end of 1951 a new booklet entitled 'Terminology of Cost Accountancy' was in course of completion.

Summer School

The second residential summer school, held at St Catharine's College, Cambridge, from September 3rd to 8th, 1951, maintained the success achieved at the first. The following papers were submitted: 'Factory organization', by F. C. Lawrence, M.C., B.SC.TECH., F.C.W.A., A.M.I.E.E.; 'Production control, with emphasis on materials', by Bruce A. C. Hills, M.B.E., B.SC., A.C.G.I.; 'Work measurement', by D. J. Desmond, M.SC., M.I.E.E.; 'Fourth element: a case study of the over-head-to-factory-load relationship', by E. F. Brown, F.C.W.A.; 'Selection and training', by J. Munro Fraser, M.A.

A dinner was held on the last evening, Friday, September 7th, at which the Institute was honoured by a number of distinguished guests from industry, the profession, and the academic sphere.

Appointments Bureau

During the year the Institute's Appointments Bureau received 528 inquiries (as against 422 in the previous year) from employers for costing staff at various levels. Approximately one-quarter of these appointments were filled by the bureau and one-quarter were still open at the end of the year. Over the last three years, vacant appointments notified to the Institute aggregated in salary value about £750,000, of which approximately one-third were filled through the Appointments Bureau.

Ninth International Management Congress

The Ninth International Management Congress was held in Brussels on July 5th–11th, 1951, at which a number of members of the Institute were present, including the President and Director as official delegates. Papers and discussions were on a number of subjects of special interest to the profession, including work measurement, flexible budgeting and education for management.

Sixth International Congress on Accounting

During the course of the year, the Institute, as joint hosts with the other recognized bodies of accountants in Great Britain, has been represented at numerous meetings of the Congress Council and its committees in connexion with the arrangements for the Sixth International Congress on Accounting, to be held in London during the period June 16th–20th, 1952. Two members of the Institute have prepared papers for this Congress: Mr W. S. Risk, B.COM., C.A., F.C.W.A., the Institute's nominee, who will discuss the part played by the accountant in industry; and Mr W. L. Birnie, B.COM., A.C.W.A., F.I.A.N.Z., nominated by the Institute of Accountants of New Zealand, whose paper will deal with the accounting requirements for issues of capital.

Council

Five meetings of the Council and five meetings of the Executive Committee, apart from numerous meetings of standing and other committees, were held during the course of the year. In accordance with the articles, the following seats on the Council become vacant at the annual general meeting in 1952, the names of the present holders (who are eligible for re-election) being as hereunder: Area No. 1, London & South England: Messrs I. T. Morrow and L. F. Nicholson. Area No. 4, Birmingham: Mr G. C. Stone. Area No. 7, Manchester: Mr J. Borsay. Area No. 9, Sheffield: Mr W. C. Garrison. Area No. 10, Leeds: Mr E. Emmerson. Area No. 13, Middlesbrough: Mr W. Troughton. Area No. 30, Glasgow: Mr A. Miller. Area No. 31, Edinburgh: Mr W. Bishop. Area No. 50, South Africa: Mr A. Hopewell.

Benevolent Fund

During the year, contributions to the Benevolent Fund (many under covenant) amounted to £780, and a number of grants were made in approved cases. The Fund at the close of the year totalled £8,298. In December a special appeal to members for support for the Fund was made by the President with good results.

Accounts

The audited accounts for the year ended December 31st, 1951, are annexed hereto.[1] Having regard to the general fall in the market value of securities, the Council has continued its policy of providing for the depreciation of the Institute's investments.

[1] Not reproduced. – Editor.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

SIXTY-NINTH ANNUAL GENERAL MEETING

The sixty-ninth annual general meeting of The Chartered Accountant Students' Society of London was held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, on Thursday, May 1st. The President, Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., was in the chair, and about 300 members attended.

Sixty-ninth Annual Report

The report shows that the total membership at the end of the year was 3,902, an increase of 302 compared with the total of a year before. This figure is made up of 2,894 ordinary members and 1,008 honorary members; membership of the Society has continued to increase since December 31st, 1951.

Activity is reported by the branches at Southend and Chelmsford; separate reports have been made for the information of their members.

The report emphasizes a need for groups or branches in outlying areas and the Committee would welcome the support of local members who, either alone or jointly, would be willing to undertake the duties of group or branch secretary. This, it is stated, applies especially to the Reading and East Kent areas.

Meetings, Lectures and Visits

As in the previous year, there were five general meetings; a spirited discussion followed Sir Harold Howitt's address on 'Today's problems as affecting students'[1] at the annual general meeting, and four gentlemen were then appointed to meet the Committee of the Society to discuss matters which had then been raised, these included: information to members about Committee action, stimulation of corporate spirit among members, the Carr-Saunders report, financial aspect of articles, exchange of articles, and time off for study.

About 800 members attended the President's meeting which opened the autumn session. The Lord Mayor of London, Sir Denys Lowson, gave an address of welcome and Sir Theobald Mathew, K.B.E., M.C., Director of Public Prosecutions, spoke on 'The King's Peace'.[2] An 'articled clerks' parliament', again presided over by Mr E. G. Turner, M.C., F.C.A., of Manchester, provided another opportunity for keen discussion on matters of immediate interest to members.

At two meetings for new members, tea was provided in the Oak Hall of the Institute where they were welcomed to the Society by the President and Vice-Presidents and told about the activities of the Society and the help it can give during articles.

There were two courses, each of fourteen meetings, for newly-articled clerks; two 'speakers' courses', each of six meetings; two sessions of general lectures, attendance at which, the report says, 'has been very disappointing'; two courses of daytime special lectures for Final candidates; visits to banks; and eighteen accounting machine demonstrations and lectures.

Details are also given of the successful annual dinner, the library and premises, prizes, scholarships and grants, of matters discussed at the conference of the Union of Chartered Accountant Students' Societies, and of sports activities.

The statement of accounts for the year to December 31st, 1951, shows a surplus of £593; last year's figure was £578.

The Committee's report and the accounts for 1951 were adopted without comment from members, after Mr E. D. Barton, B.A., A.C.A., Chairman of the Committee, had spoken of the expansion in the numbers and activities of the Society, the increased burden which fell upon the Committee and the active response of its members to the calls upon them. He stressed especially the work done by the ex-service members in spite of the special pressure of the examinations upon their time.

Mr V. F. Berry, A.C.A., on behalf of the members appointed at the last annual general meeting, reported on the discussions which they had had with the Committee on the forwarding of the work of the Society for articled clerks.

An alteration to the rules of the Society to provide for an increase in the number of members of the Committee was adopted after amendments had been accepted increasing the frequency of re-election of members of the Committee.

Presentation to Sir Harold Howitt

The meeting then enthusiastically welcomed a presentation to Sir Harold Howitt to mark the members' appreciation of his guidance and help during his five-year period as president of the Society. A bouquet was presented to Lady Howitt who was very welcome as a guest at the meeting. In his response, Sir Harold Howitt referred to the duty and importance of each generation to give all possible help and encouragement to those who would succeed them and upon whom would fall the responsibility for the conduct and progress in the future of their profession and the nation.

Election of Officers

The following officers were elected:

President: Mr S. Harold Gillett, M.C., F.C.A.

Vice-Presidents re-elected: Mr George R. Freeman, F.C.A., Mr John Myers, F.C.A.

Additional Vice-Presidents: Mr W. G. Campbell, B.A., F.C.A., Mr Brian Manning, D.L., J.P., F.C.A., Mr G. L. C. Touche, B.A., F.C.A.

Hon. Treasurer: Mr Douglas A. Clarke, LL.B., F.C.A.

Hon. Auditors: Mr W. E. Parker, C.B.E., F.C.A., Mr H. Garton Ash, O.B.E., M.C., F.C.A.

Members of Committee re-elected: Messrs P. W. Barrows, B. D. Barton, B.A., A.C.A., J. Cutner, J. E. Price.

Additional Members of Committee: Messrs B. Arnold, V. F. Berry, A.C.A., L. M. Kershaw, J. H. Pascoe, A. R. Whyte.

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[1] Reproduced in *The Accountant* dated June 23rd, 1951.

[2] Reproduced in *The Accountant* dated December 29th, 1951.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

THE PRESIDENT'S DINNER

The President of the Institute, Mr Charles W. Boyce, C.B.E., F.C.A., gave a dinner on Tuesday, May 6th, at the Hall of The Institute of Chartered Accountants in England and Wales, Moorgate Place, London. The following guests were present:

Messrs Herbert E. A. Addy (*President, Institute of Chartered Accountants in Ireland*); J. R. W. Alexander (*President, Chartered Institute of Secretaries*); A. M. Allen (*Secretary, Chartered Institute of Secretaries*); W. M. Allen; H. Garton Ash, O.B.E., M.C.

Sir Eric Bamford, K.C.B., K.B.E., C.M.G. (*Chairman, Board of Inland Revenue*); Messrs R. W. Bankes, C.B.E.; C. Percy Barrowcliff (*President, Society of Incorporated Accountants and Auditors*); W. L. Barrows; Sir Harold Barton; Messrs T. A. Hamilton Baynes; H. Beer, C.B. (*Under-Secretary, Insurance and Companies Department, Board of Trade*); A. M. Bentley; Stanley J. D. Berger, M.C. (*Director, Institute of Cost and Works Accountants*); B. H. Binder; T. Fleming Birch; James Blakey; Harold Bolton; F. W. Boyce, M.C., T.D.; J. C. Boyce; E. P. Broome.

Messrs W. G. Campbell, P. F. Carpenter; W. S. Carrington; L. F. Cheyney (*Secretary, Institute of Municipal Treasurers and Accountants*); G. A. Collins (*President, Law Society*); S. W. Cornwell; I. A. F. Craig, O.B.E. (*Secretary, Society of Incorporated Accountants and Auditors*); F. R. M. de Paula, C.B.E.; A. S. H. Dicker, M.B.E.; G. D. Dillon; Derek du Pré; Col. Frank N. Falkner, O.B.E., T.D. (*Past President, Institute of Arbitrators*); Mr W. W. Fea; Sir Archibald Forbes (*President, Federation of British Industries*); Mr George R. Freeman.

Messrs S. H. Gillett, M.C.; Wilfrid B. Gowers; P. F. Granger; Douglas J. Hadley; K. G. M. Harding; M. G. J. Harvey; Neville B. Hayman (*Master, Worshipful Company of Upholders*); D. V. House; H. Crewdson Howard; Arthur Jolly; Brigadier S. O. Jones, O.B.E., M.C. (*Chief Executive Officer, Sixth International Congress on Accounting*, 1952). Messrs A. F. Kent; E. N. Kerr; Sir Russell Kettle; Mr E. C. Kinghorn

Rt Hon Lord Latham (*President, Association of Certified and Corporate Accountants*); Messrs J. C. Latham, D.L. (*Secretary, Association of Certified and Corporate Accountants*); W. H. Lawson, C.B.E.; M. A. Liddell; J. D. Liggatt; Thomas Lister (*Chairman, Association of Scottish Chartered Accountants in London*); Miss G. L. Loring; Messrs C. H. S. Loveday; Thomas G. Lund, C.B.E. (*Secretary, Law Society*); Kenneth Lyon, C.B., C.B.E. (*Master, Worshipful Company of Glass Sellers*); E. H. V. McDougall (*Secretary, Institute of Chartered Accountants of Scotland*); W. R. MacGregor; Alan S. MacIver, M.C.; E. H. S. Marker, C.B.; Peter Martineau (*Master, Worshipful Company of Grocers*); F. A. A. Menzler, C.B.E. (*President, Institute of Actuaries*); Kenneth A. E. Moore; P. Morgan-Jones; A. W. Muse (*President, Institute of Cost and Works Accountants*).

Messrs W. Charles Norton, M.B.E., M.C.; J. C. Parsons; S. J. Pears; C. U. Peat, M.C.; G. Godfrey Phillips, O.B.E. Cedric H. Pritchard (*President, Chartered Auctioneers and Estate Agents Institute*); P. M. Rees, M.C.; G. B. Robins; L. W. Robson; T. B. Robson, M.B.E.; G. F. Saunders; K. H. Saunderson; Gilbert D. Shepherd, M.B.E.; Basil Smallpeice; M. A. Smith; E. E. Spicer; Stanley A. Spofforth (*President, Institute of Taxation*); C. M. Strachan, O.B.E.

Messrs E. Duncan Taylor; T. A. Lacy Thompson, D.S.O., M.C.; H. W. Thomson; G. L. C. Touche; E. G. Turner, M.C.; W. G. Vincent; A. D. Walker; T. Walton; Sir Nicholas Waterhouse, K.B.E.; Miss Ethel Watts; Messrs William W. Wetherill (*Chairman, the Building Societies Association*); M. Wheatley Jones; J. Whittle (*President, Institute of Municipal Treasurers and Accountants*); C. L. Widlake; H. B. T. Wilde; J. C. Montgomery Williams; R. P. Winter, M.C., T.D.

There were no formal speeches. The toast of 'The Queen' was proposed by the President and Lord Latham proposed the toast of 'The President'; Mr Boyce replied. During the evening entertainment was provided by Mr Francis White, Secretary of the Magic Circle, in 'Sophisticated Sorcery'.

Personal

MESSRS OAKLEY, WEDERELL & CO, Chartered Accountants, of Balfour House, 119–125 Finsbury Pavement, London, EC2, announce that Mr A. J. PICKARD, A.C.A., who has been a member of their staff for the last few years, has joined them as a partner with effect from April 6th, 1952.

MESSRS DUNCUM, WATKINS, FORD & CO, Chartered Accountants, of Colombo, announce that Mr R. N. WATKINS, F.C.A., retired from the firm as from March 31st, 1952. The practice will be continued by Mr C. E. BEGBIE, F.C.A., Mr E. TURNER GREEN, F.C.A., and Mr T. W. HARDSTAFF, M.B.E., A.C.A.

Professional Notes

Mr G. Metcalf, A.C.A., secretary of Grierson, Oldham & Co Ltd, has been appointed to the board of directors of the company. He continues to hold the office of secretary.

Mr A. B. Waring, A.C.A., has been elected to the board of directors of Lloyds Bank Ltd. He has also joined the Birmingham committee.

Mr E. H. Ouston, B.COM., A.C.A., has been appointed an executive director and joint secretary of The Plessey Co Ltd.

Mr J. Buist Mackenzie, C.A., F.C.I.S., F.C.W.A., has been appointed manager for the northern area of Urwick, Orr & Partners Ltd, Management Consultants.

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., a partner in the firm of Hill, Vellacott & Co, has been appointed a director of Brown Brothers Ltd.

Mr David L. Urquhart, C.A., has joined the board of directors of Don Brothers, Buist, & Co Ltd, of Dundee and Forfar. Mr Urquhart, who is secretary of the company, is also managing director of Strathmore Woollen Co Ltd, a subsidiary company.

Mr H. B. T. Wilde, F.C.A., a partner in the firm of Aston, Wilde & Co, Chartered Accountants, of Birmingham, and a member of the Council of the Institute, has been elected chairman of the board of directors of Veritys Ltd.

Obituary

THOMAS HOWARD HEAD, F.C.A.

We have learned with regret of the death on May 1st, of Mr Thomas Howard Head, F.C.A., at the age of 77.

Mr Head was, until December 31st, 1951, the senior partner in the firm of Futcher, Head, Smith & Co, Chartered Accountants, of Broad Street House, 54 Old Broad Street, EC2. He served his articles with the late Mr P. D. Leake, F.C.A., was admitted an Associate of the Institute in 1900 and elected a Fellow in 1912. In 1903 he joined the late Mr W. W. Futcher, F.C.A., in the firm of Futcher, Head & Co.

Mr Head was, we understand, the second oldest associate of Lloyd's and was one of the first accountants to be placed on Lloyd's panel of auditors.

In his younger days he was a very keen sportsman, being particularly interested in swimming, angling and golf.

In Parliament

Living Accommodation: Tax Allowance

Mr Snow asked the Chancellor of the Exchequer whether his regulations provide for persons normally resident in the country to claim income-tax allowance for living accommodation occupied by them in London in pursuance of their business activities, notwithstanding Section 137 (*c*) of the Income Tax Act, 1952.

Mr R. A. Butler: If the hon. Member refers to the cost of maintaining a second private residence, no part of which was occupied for the purposes of the business, that cost would be wholly inadmissible in assessing business profits to income-tax.

Mr Snow asked the Chancellor of the Exchequer whether his regulations provide for companies operating in the Metropolitan area to maintain living accommodation for the companies' directors or staff without the said accommodation being a personal income-tax charge on the occupants, notwithstanding clauses 123 and 137 of the Income Tax Act, 1952.

Mr R. A. Butler: The cost of maintaining such living accommodation would be deductible in computing the company's profits for income-tax purposes if it was incurred wholly and exclusively for the purposes of the company's trade. The value of the benefit would normally be taxable as gross emoluments if the recipient was an employee earning £2,000 a year or more, or a director. In other cases the question of liability of the recipient would depend on the facts, but there are instances where liability would not arise.

Hansard, April 29th, 1952, Written Answers, Col. 67.

Deeds of Covenant

Mr Wood asked the Chancellor of the Exchequer what was the amount paid to charities under deeds of covenant in the latest financial year for which figures are available; and how much of this was repayment of income-tax and how much relief, from sur-tax.

Mr Boyd-Carpenter: The total amount paid to charities under deeds of covenant in the year to March 31st, 1952, is estimated at £9½ million, of which about £4½ million represents income-tax repayments. The sur-tax relief given to the covenantors is about £½ million. This amount is decreasing rapidly as no sur-tax relief is due in respect of deeds executed after April 10th, 1946.

Mr Wood asked the Chancellor of the Exchequer what was the number of seven-year deeds of covenant to charities, and the total number of seven-year deeds of covenant, in the latest financial year for which figures are available.

Mr Boyd-Carpenter: The total number of seven-year deeds of covenant in force in the year to March 31st, 1952, is estimated at about 600,000, of which about 550,000 were in favour of charities.

Hansard, April 29th, 1952. Written Answers, Col. 71.

Advertising: Tax Allowances

Mr Snow asked the Chancellor of the Exchequer what limit is placed by his regulations, on income-tax allowances for advertising, included in the trading costs of commercial businesses, under the provisions of the Income Tax Act, 1952.

Mr Boyd-Carpenter: A deduction for advertising expenses has to be determined in accordance with general income-tax law, under which expenditure is deductible in computing profits if, not being of a capital nature, it is wholly and exclusively incurred for the purposes of the business in question.

Hansard, May 1st, 1952. Written Answers, Col. 101.

Approved Auditors: Friendly Societies

The Registrar of Friendly Societies has issued a supplementary list of Approved Auditors giving the names of 152 new appointments. The names of sixty whose appointments have been discontinued are also given.

Liquidation of Branches in Japan of Certain Companies with Head Offices Abroad

The Board of Trade states that information has been received from the United Kingdom Liaison Mission in Japan that the branches in Japan of the undermentioned companies with head offices outside Japan have been liquidated or reorganized, and that there are on deposit in Japan for account of British shareholders resident outside Japan, certain proceeds of liquidation of these branches:

Dai Nihon Seito K.K. (Great Japan Sugar Manufacturing Co).

Ensuiko Seito K.K. (Ensuiko Sugar Manufacturing Co).

Meiji Seito K.K. (Meiji Sugar Manufacturing Co).

Nikka Boshoku (Japan China Spinning & Weaving Co).

Shanghai Boshoku K.K. (Shanghai Cotton Manufacturing Co).

Doko Boshoku (Dong Shing Spinning & Weaving Co).

British owners of shares in these concerns are advised to communicate with the Controller-General, Administration of Enemy Property Department, Lacon House, Theobalds Road, WC1, for further information.

Welfare and Children Services Statistics in 1950–51

For the second year The Institute of Municipal Treasurers and Accountants and The Society of County Treasurers have jointly compiled booklets on 'Welfare Services Statistics' and 'Children Services Statistics'. The present analyses cover the twelve months ended March 31st, 1951.

The two returns each set out the expenditure and costs of 62 counties and 83 county boroughs in England and Wales and analyse the net expenditure and grants as a cost per 1,000 population served. The highest net rate-borne expenditure during 1950–51 on welfare services, which cover residential homes, temporary accommodation and blind persons services, amounted to £480 10*s* per 1,000 people in the county of Montgomery, Wales. The county borough of Gateshead with an expenditure per 1,000 people of £460 17*s* was the next highest, while the county borough of Nottingham was the lowest at £118 12*s*.

The children services' booklet dealing with costs of upkeep of residential homes and nurseries, including hostels, approved schools and remand homes, shows the highest net rate-borne expenditure for the year to be £282 4*s* per 1,000 population in the administrative county of Lincoln (Holland); the lowest being Derbyshire at £68 9*s*. The highest county borough expenditure was Gateshead at £270 3*s* per 1,000 population.

The Institute of Cost and Works Accountants

TWENTY-THIRD NATIONAL COST CONFERENCE

The twenty-third national cost conference of the Institute of Cost and Works Accountants will be held on Friday, May 16th at *The Palace Hotel*, Buxton.

The President, Mr A. W. Muse, F.C.W.A., F.A.C.C.A., will give the presidential address at 10 a.m. The first technical session will follow, the subject being a paper on 'Cost reduction', by Mr A. D. Mackay, B.COM., C.A., A.C.W.A. A second technical session in the afternoon will be based on a paper by Mr H. Wilmot, C.B.E., F.C.W.A., on 'The training of management accountants'.

The Institute banquet will be held in the evening with entertainment and dancing to follow. The thirty-third annual general meeting on Saturday morning will conclude the conference.

Bristol and West of England Society of Chartered Accountants

The annual meeting of members of the Bristol and West of England Society of Chartered Accountants was held at the Library, Albion Chambers, Small Street, Bristol, 1, on Friday, April 25th. The committee's annual report shows that the total membership of the Society at December 31st, 1951, was 331 – an increase of exactly 100 on the previous year's figure. The highlight of the year was the Institute's twentieth autumnal meeting which was held at Torquay last October when the Society was host.

At a special meeting of the Committee held after the annual meeting, the following officers were elected for 1952:

President: Mr H. R. Clark, A.C.A.
Vice-President: Mr C. Croxton Smith, M.A., LL.B., F.C.A.
Hon. Secretary: Mr R. A. Chermside, A.C.A., Albion Chambers, Small Street, Bristol, 1.
Hon. Treasurer: Mr A. F. B. Ham, F.C.A.
Hon. Librarian: Mr E. A. Harris, F.C.A.
Hon. Secretary, Regional Taxation and Research Committee: Mr C. Croxton Smith, M.A., LL.B., F.C.A.

East Anglian Society of Chartered Accountants

At the recent annual general meeting of the East Anglian Society of Chartered Accountants, the following officers were appointed for 1952:

President: Mr G. G. Youngs, F.C.A.
Vice-President: Mr G. G. Goult, F.C.A.
Hon. Secretary: Mr H. Robinson, F.C.A., of Messrs Robinson & Co, Elm House, 4 Elm Hill, Norwich.

East Anglian Chartered Accountants' Students' Association

The officers and committee of the East Anglian Chartered Accountants' Students' Association elected for the ensuing year are as follows:

President: Mr G. A. G. Oldfield, A.C.A.
Vice-President: Mr H. Robinson, F.C.A.
Hon. Secretary: Mr K. S. Dugdale, c/o Martin & Acock, 69 London Street, Norwich.
Hon. Treasurer: Mr G. M. Stannard.
Committee: Messrs K. T. Boardman, A.C.A., D. H. Gilbert, S. P. McGuire, C. E. Eldred, D. C. Denman, and M. G. Burt.
Hon. Auditors: Messrs N. A. E. Todd and J. O. Turner.

Freeman of Darlington

A pleasing ceremony took place recently at Darlington in which two local practising accountants were the chief participants. Alderman W. Heslop, J.P. (senior partner in the firm of Heslop & Son), was made a Freeman of the County Borough of Darlington and was publicly presented with a scroll commemorating the occasion by the Mayor, Councillor H. Sansom, F.C.A. (senior partner in the firm of Sansom, Bell & Co, Chartered Accountants).

This signal honour (there have been only six

previous recipients in the long history of Darlington) was given to Alderman Heslop, who is in his eighty-second year, for valuable public services. He is chairman of the Finance Committee of the County Borough and was Mayor in 1931–32. He has a long record of service in local voluntary organizations, being founder-secretary and past president of the Rotary Club, senior trustee of the Sir E. D. Walker Homes for aged people, a former chairman of Darlington Operatic Society, and for thirty years was organist at Greenbank Methodist Church.

Royal Statistical Society

ECONOMIC INDICES FOR 1952

A meeting of the Study Section of the Royal Statistical Society will be held at 6 p.m. on Wednesday, May 14th at the E.L.M.A. Theatre, 2 Savoy Hill, London, WC2, when there will be a discussion of the predictions, submitted by a number of leading economists, on economic indices for 1952. Visitors will be welcome.

Golf

WOOD CHALLENGE CUP

The annual match between the Chartered Accountants' Golfing Society and the Scottish Chartered Accountants in London Golf Club for the Wood Challenge Cup was played over 36 holes at the Berkshire Golf Club on April 24th and was won by the Scottish Chartered Accountants. The leading scores were:

Scottish Chartered Accountants' Golf Club

Harrison and Morrison	3 down
Whyte and Lister	9 ,,
Ross and MacKeith	9 ,,
Burnet and Pratt	10 ,,
Douglas and Inglis	12 ,,
Gairdner and Scroggie	13 ,,
	56 ,,

Chartered Accountants' Golfing Society

Green and Lemmon	5 down
Derby and Leeming	10 ,,
Steen and Wingfield	13 ,,
Williamson and Lotery	14 ,,
Gibson and Penwell	15 ,,
Bersey and Dixon	17 ,,
	74 ,,

The prizes for the best morning and afternoon returns were won by Harrison and Morrison and the runners-up were Green and Lemmon and Douglas and Inglis.

English Amateur Golf Championship

Four members of the Institute reached the fourth round of the English Amateur Golf Championship which ended on May 3rd on the Burnham and Berrow course. They were I. R. Patey, A.C.A., K. R. Frazer, A.C.A., R. D. Henderson, B.A., A.C.A., and H. D. Nicholson, A.C.A. Patey, who won the championship in 1946, went on to reach the semi-final, and has been selected to play for England against France later this month.

Recent Publications

PALMER'S EXAMINATION NOTE BOOK, Eighth Edition, by Alfred Palmer, A.S.A.A., F.C.C.S. 204 pp. 8½×5½. 15s net, 15s 9d post free. Gee & Co (Publishers) Ltd, London.

THE PRACTICAL COMPANY SECRETARY, Sixth Edition, edited by Alfred Read, M.B.E., F.C.I.S. xv+1134 pp. 10×7½. £5 10s net. Sir Isaac Pitman & Sons Ltd, London.

HOSPITAL ORGANIZATION AND MANAGEMENT, by Captain J. E. Stone, C.B.E., M.C., F.S.A.A., F.H.A. xxii + 1,722 pp. 10 × 6½. 8 gns. net. Faber and Faber Ltd, London.

THE RATE OF INTEREST AND OTHER ESSAYS, by Joan Robinson. viii + 170 pp. 8 × 5. 10s 6d net. Macmillan & Co Ltd, London.

INDEX TO INCOME TAX ACT, 1952, compiled by John Gilbert, A.C.I.S., F.C.T.C. 68 pp. 9½ × 6. Paper cover. 7s 6d net, post free 7s 10d. Barkeley Book Co Ltd, Stanmore, Middx.

STATISTICS AND THEIR APPLICATION TO COMMERCE, by A. Lester Boddington. Revised Tenth Edition, by A. R. Ilersic, B.COM., F.S.S. xiv + 451 pp. 8½ × 5½. 25s net. H.F.L. (Publishers) Ltd, London.

KEY TO INCOME TAX, 1952–53, Budget Edition. 222 pp. 8½×5½. 7s 6d net, 7s 9d post free. Taxation Publishing Co Ltd, London.

THE BRITISH JOURNAL PHOTOGRAPHIC ALMANAC, 1952, Ninety-third Edition. 596 pp. 7½×5. 5s net. Henry Greenwood & Co Ltd, London.

BUSINESS BOOK-KEEPING, by John Routley, Fourth Edition by C. E. Hall, F.C.A. x+362 pp. 7½×5. 7s 6d net. Sir Isaac Pitman & Sons Ltd, London.

CURRENT LAW INCOME TAX ACTS SERVICE (Citas) Loose-leaf. 10×7½ pp. £3 10s net. (Service subscription for 1952, £1 10s). Sweet & Maxwell Ltd, London.

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CONTENTS

THE INSTITUTE'S YEAR

ON another page we report in full the proceedings of the seventy-first annual general meeting of The Institute of Chartered Accountants in England and Wales. In the course of his presidential address, Mr CHARLES WILLIAM BOYCE, C.B.E., F.C.A., comments on some of the more important items contained in the Council's report for 1951 – which, with the accounts of the Institute, was adopted unanimously – and considers briefly one or two of the complex problems facing the profession today.

Among the domestic matters referred to by the PRESIDENT is the trend of examination results. It is gratifying to note that the percentage of passes in the Final examination has increased appreciably from 42·45 in 1950 to 47·14 in 1951. The Intermediate examination results, however, are disappointing, the percentage of passes being 44·43 as against 46·32 in 1950. For November alone the percentage was 41·35. As a means of improving this ratio the importance of guidance by their principals of the younger pupils cannot be stressed too strongly. Moreover, the pupils themselves should be urged, wherever possible, to take full advantage of the students' societies which, as well as providing sound tuition, help clerks to cultivate that 'sense of corporate responsibility' which is one of the hall-marks of a chartered accountant. The number of articles of clerkship registered in 1951 was 1,380 as compared with 1,450 in the previous year.

The main corporate activities of members took the usual form of the summer course at Christ Church, Oxford, and the autumnal meeting, held on this occasion at Torquay. The papers presented at each of these events were of a very high standard and their subsequent circulation, in booklet form, to all members ensured for them the wider public which their excellence merited. The other principal publications of the Institute during 1951 were three pamphlets on the accounting implications of the Town and Country Planning Act, 1947, on income and capital statistics supplied with company reports and on the allocation of overhead expenses; the Council's reply to the recommendations of the Carr-Saunders Committee on education for commerce in so far as they concerned the accountancy profession; and, jointly with the National Institute of Economic and Social Research, a report on the result of their attempts to agree on the meaning of certain basic accounting terms and concepts. The Council, also, submitted to the Royal Commission on the Taxation of Profits and Income its memorandum on Part A of the notice issued by the Royal Commission. A memorandum on Part B has since been approved and submitted.

During the year the Planning Committee was disbanded.

Formed in 1945, it was responsible for many of the features of the post-war development of the Institute, including the arrangements for concessions to ex-Service men, the introduction of the summer courses and the production of the *Members' Handbook*. A new sub-committee, known as the General Purposes Sub-committee (Non-practising members), was set up in 1951 to advise on matters concerning the interests of the non-practising members of the Institute, a timely step in view of what we described recently as 'the friendly infiltration of accountants into industry'. As time passes, the labours of the Council and its attendant committees continue to grow more arduous. A total of 192 meetings were held in 1951 as compared with 185 in 1950. In both years the attendances were 88 per cent of the possible, a record of voluntary service which, in view of the heavy responsibility involved, not only to members but to the community at large, it would be difficult to surpass.

The finances of the Institute as shown by the annual accounts, now that subscriptions have been put on a more realistic basis, are extremely sound. The deficits of the war and subsequent years have been largely erased by the surpluses of £16,673 for 1950 and £14,482 for 1951. The accumulated fund now stands at £158,091 which is only £5,541 less than the corresponding balance in 1939.

Towards the close of his speech, the PRESIDENT makes reference to two problems to which accountants are at present giving much thought. The first is the new excess profits levy which the Government has introduced in the Finance Bill, 1952, as part of its policy to combat inflation. MR BOYCE deplores, as do we, the unfair incidence of this imposition and fears that like the excess profits duty and the excess profits tax before it, it will once more 'put a premium on extravagance and act as a deterrent to initiative and enterprise'. His suggested remedies to restore the economic well-being of this country are fundamentally simple and sound – increased production at reasonable prices and increased exports. This, he believes, can only be brought about by the strenuous and combined efforts of both management and workpeople and by national thrift.

The PRESIDENT also reiterates clearly the Council's views – first propounded in the famous Recommendation XII of January 1949 – on the accounting problems caused by fluctuations in the purchasing power of money and his announcement that a further statement on the subject has been authorized for publication and will shortly be available, is welcome. It seems clear, however, from the PRESIDENT'S remarks, that while the Council realizes the limitations of accounts prepared on the historical cost basis under present conditions, it has as yet no satisfactory alternative to offer which would satisfy its own requirements of sound accounting practice. As an interim measure, the PRESIDENT suggests:

> '. . . that fuller information should be given to the shareholders as to the estimated effects which changes in prices have had upon the affairs of their businesses and we recommend the building up of reserves to reflect those changes. We also recommend experimenting with methods of measuring the effects of price changes on profits and financial requirements and the inclusion of a statement of the basis of the calculations if the results of these experiments are published as part of the documents which accompany the accounts'.

These views coincide broadly with the conclusions expressed in the recently published report[1] of the committee of accountants, industrialists and economists set up by the American Institute of Accountants to consider this question although the Americans go on to suggest, but not unanimously, that ultimately the framework of financial accounts should be expanded to show the trading results, both apparent and real, in one integrated statement upon which the auditor should be called upon to express his opinion.

The problem is manifestly one on which a forthright exchange of ideas would be invaluable and an early opportunity for this will occur at the International Congress on Accounting next month. Thereafter, the Council proposes to invite other professional bodies to join in further investigation. It is to be hoped that, as a result of these deliberations, the profession may give a unanimous lead to the world on this long debated point. To find a real solution will require imagination and the flexibility of thought possessed by MR CHURCHILL who told a questioner in the House last week that his views 'were subject to a harmonious process which keeps them in relation to the current movement of events'.

[1] See *The Accountant*, March 1st, 1952, at page 209; also pages 509 and 510 of this issue.

TRANSPORT POLICY

A ROAD HAULAGE LEVY

THE Government's White Paper on transport policy, published on May 8th, is a curious document. It lacks the precision and clarity that is usually associated with White Papers and bears obvious signs of hasty composition.

The view is expressed that an integrated system of public transport, as envisaged by the Transport Act, 1947, even if it were possible of achievement, would be unwieldy and ill-adapted to meet with promptitude the varying and instant demands of industry. The efforts made by the Transport Commission and its executives are said in any case to be unlikely to achieve more than working arrangements between separate entities. Railway administration has become excessively centralized and the Road Haulage Executive cannot, it is said, give the services afforded by free hauliers, nor could it stand up to their competition.

Accordingly the White Paper announces the intention to introduce new and constructive legislation, with a 'positive approach', under which, with a minimum of centralized control, the system may be stimulated to adjust and develop itself in accordance with public needs, and may regain and increase its flexibility. This involves the preservation of the present railways as a national asset, but with greater autonomy for areas which will follow the pattern of the present regions, Scotland being a separate area. Finance and the determination of charges will continue to be centralized, and the precise extent of area autonomy will be determined by schemes to be submitted by the Transport Commission to the MINISTER OF TRANSPORT for approval. From this arrangement the White Paper expects a healthy rivalry between areas, and greater scope for initiative. Significantly, the Commission is to have power to adjust its charges with the subsequent approval of the Transport Tribunal, subject to Ministerial approval.

No mention is made of the advantages of centralization, such as the national standardization of equipment, nor is it explained how the 'healthy rivalry' will come about. There was not much evidence of it before the war, except on the popular fast long-distance routes, which in any case pay so well that they subsidize the minor services.

On road haulage, the White Paper is quite startling. The Government, convinced that the undertaking of the Road Haulage Executive should return to private ownership, proposes to divide it into 'operable units' and sell them by open tender, with the right to 'A' licences and freedom from the twenty-five-mile limit. For other goods vehicles this limit will be removed later and new licences under the Road and Rail Traffic Act, 1933, will be granted more readily.

Needless to say, the proceeds of such sales will be much less than the aggregate sums which had to be paid in compensation, including as they did substantial amounts of goodwill which is not now saleable. Moreover, the fear of possible future re-nationalization will depress prices. Finally, the most objectionable feature of the White Paper, the proposed levy on goods vehicles, will further depreciate the value of the vehicles now to be sold.

The levy is to extend to all goods vehicles, other than small local delivery vans. It is to produce £4 million a year at first, with the dual purpose of compensating the Commission for the capital loss on its road haulage undertaking and for the income loss which it is presumed will be incurred when road haulage takes more business from the railways. The latter element is not to include losses due to trade recessions or to the Commission's failure to secure 'reasonable economies'. As it is of uncertain amount the levy is to be reviewed at intervals of, say, three years. It has been estimated that in practice a levy of £4 million will work out at something like £4 for a two-ton lorry. This, of course, will apply not only to lorries acquired from the Road Haulage Executive, but also to lorries which have hitherto been fully occupied despite the restrictions on free enterprise haulage.

The levy seems to promise more bureaucrats, since presumably it will be collected for each individual vehicle. Presumably it will be a permissible deduction for tax purposes, so that in effect half of it will be passed on by the industry to the general body of taxpayers, who will in any case ultimately suffer any loss incurred by the Commission. It is to be hoped that they will get something for it.

DUAL RESIDENCE OF COMPANIES FOR TAXATION PURPOSES

by GEOFFREY HORNSEY, LL.M.
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THE concept of the 'residence' of that artificial person, the limited company, is one which has for many years troubled all those concerned with taxation law, and this is particularly true when either the company or the Crown has sought to establish a dual residence, both in this country and abroad. For this reason, therefore, the recent judgment of the Court of Appeal in *Union Corporation v. C.I.R.* ([1952] 1 All E.R. 646) is most welcome.

It has long been established that a company resides where it 'really keeps house and does business', i.e. where the central control and management of the company is found, and that neither the act of incorporation in a particular country, nor the presence of assets there, nor the simple fact that the company transacts business there, is sufficient to establish residence in that country.

It would appear that when this test was formulated by the House of Lords in 1906 in *De Beers Consolidated Mines Ltd v. Howe* ([1906] 5 T.C. 198) it was intended to be an exclusive test, so that a finding that the central control and management of a company was situated in a particular country would exclude residence elsewhere.

But in *Swedish Central Railway Co v. Thompson* ([1925] 4 A.T.C. 163; 9 T.C. 342), although residence in Sweden was admitted, the House of Lords held (by a majority of four to one) that dual residence was possible and that there was sufficient evidence, on the facts of the case, to support the conclusion of the Commissioners that the company was also resident in England. The facts in this case were that the company owned a railway undertaking in Sweden, but that this had been leased to an operating company, so that the company's business activities were limited to the receipt of a yearly rental. The company was registered in England, employed a secretary at its office in London, where it kept its seal and register of members and had its accounts made up and audited, but all meetings of both directors and shareholders were held in Sweden.

'It was found by the Commissioners,' said Lord Cave, (4 A.T.C. 167) 'that, while the business of the company was controlled and managed from the head office at Stockholm, so that the company would in the contemplation of English law have a residence in Sweden, the company was resident in the United Kingdom for the purposes of the Income Tax Acts; and it was hardly disputed that, assuming that a company can have two residences, there was sufficient material upon which that finding could be based.'

The vital aspect of the decision was therefore that which admitted the possibility of dual residence. This can happen, said Lord Cave, where a company

'keeps house and does business'

in more than one place.

'The central management and control of a company may be divided . . . and if so, it may have more than one residence.' (4 A.T.C. 165.)

It will be noted that Lord Cave speaks, on the one hand, of a company having more than one residence when its management and control are divided, whilst on the other hand, he declares that the Swedish Railway Co was controlled and managed from Stockholm. The confusion occurring from this element of discrepancy had to be resolved by the House of Lords some years later in *Egyptian Delta Sand Co v. Todd* ([1929] 7 A.T.C. 355; 14 T.C. 119).

There, both the business activities and the control of the company were centred in Egypt, but the Crown claimed that the fact that the company was incorporated in England and therefore had here a registered office was sufficient to establish a second residence here. This contention was rejected by the House of Lords which applied to the company the same test as had been applied in the *De Beers* case (*ubi supra*) to a company incorporated abroad. Referring to the *Swedish Railway* case, Lord Sumner declared that all that was decided there was that a company may have more than one residence and that the House had found sufficient evidence to support a finding that the Swedish Railway Co did in fact have more than one residence. He continued, however, as follows (7 A.T.C. 359):

'Nor is it decisive of the point to say now that the business done in England was purely administrative. It was in fact a good deal more and, in the static condition of the company's affairs, it was not much less important than the Swedish part.'

It would appear, in other words, that the House

was turning once more to the original tests of 'keeping house and doing business'.

This view is supported by the recent decision of the Court of Appeal referred to above. The point at issue there was whether a company was entitled to non-distribution relief in respect of the whole of its profits for the purpose of profits tax in spite of the fact that the company admitted residence in this country. Section 39 (1) of the Finance Act, 1947, provides that persons 'ordinarily resident outside the United Kingdom' are entitled to the relief, but the company claimed that this expression did not exclude a person or company resident abroad but having at the same time a residence in this country, and it also claimed that it did in fact have such dual residence.

In the event, the Court decided the first point against the company so that it was unnecessary to decide whether a dual residence could be established by the company, but in view of the fact that the point had been argued, the Court went on to express its opinion on the question, recognizing that its views were in fact *obiter dicta*.

The interpretation given to the decisions of the House of Lords was that a company may properly be found to reside in a country where it 'really does business', in other words, where the controlling power and authority which, according to the ordinary constitution of a company, is vested in the board of directors, and the exercise of that power and authority, is to some substantial degree to be found. The formula 'central power and authority', which the Court used in place of the phrase 'central control and management' employed in earlier cases, does not, it was said, demand that the Court should look only to the place where the final and supreme authority is to be found.

> 'There must, in order to constitute residence, be not only some substantial business operations in any given country, but also present some part of the superior and directing authority.'

The question must always, in particular cases, be one of degree, and therefore one of fact, so that the conclusion of the Special Commissioners, provided there is evidence to support it, will be final.

NORTH AMERICAN COMMENTARY–XXXIII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)
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Journal of Accountancy,
New York, February and March

Corporate Annual Reports

THE fifth annual survey of 525 corporate annual reports was published by the American Institute of Accountants in December. The editorial mentions the increasing use of schedules of comparative figures for prior years, the steadily increasing substitution of 'retained earnings' for 'surplus', and the fact that 136 of the companies used LIFO for inventory valuation in 1950, compared with 98 in 1949.

The Profession's Personnel Problems

These are dealt with at some length by the editorial. The numbers of certified public accountants (C.P.A.s) are said to have doubled in twelve years, without supply ever catching up with demand. Between 60 per cent and 70 per cent of candidates at C.P.A. examinations are college graduates, yet the general enrolment in business schools appears to be falling less rapidly than that of specializing accounting majors. It may be stated that in Canada there is a similar trend. Students prefer the 'cash' of an immediate business career to the 'credit' of a future career as a qualified accountant, deferred by a period of training. Of the situation in the United States the editorial says that the question has been raised

> 'whether the profession should establish standards of professional accounting education and develop machinery for the approving or rating of schools as some of the older professions have done.'

There is no suggestion of shortening the period of college training. Rather, the editorial asks, whether four years is enough time for all the necessary college instruction, both in liberal arts and technical subjects.

'Changing Concepts of Business Income'

Under this title the Study Group on Business Income, financed by the Rockefeller Foundation and the American Institute of Accountants, has reported the results of three years' research. The group represents responsible business men,

economists, lawyers, accountants and financiers, and their findings have long been eagerly awaited. While many conflicting views have had to be reconciled, and the final compromise may seem somewhat vague, the report nevertheless represents a real advance towards acceptance by accountants of responsibility for dealing with the problem of inflation in accounts. The goal recommended is expansion of the framework of accounting statements to distinguish 'results measured in units of substantially equal purchasing power' from those due to changes in money values. Pending the attainment of this goal the Group believes that this distinction should be made as supplementary information

> 'in annual reports of those corporations whose securities are widely distributed, and recommends that as far as possible *this information should be part of the material upon which the independent accountant expresses his opinion*' (italics supplied).

This would seem to have special significance as the first official published recommendation that the auditor should cover by his report, figures converted by indices from past dollars to current dollar equivalents. It is stated that the postulate of monetary stability on which traditional accounting is based is 'an obvious fiction', the question being whether this fiction gives

> 'more useful results than can be secured by adoption of a different assumption.'

As to the choice of indices it is stated that

> 'The differences between the results obtained by applying different indexes . . . are no greater than those resulting from optional treatments of depreciation and pensions.'

This may be contrasted with the Tucker Committee's fear of introducing 'abstractions' into the accounts.

This summary in the February *Journal* is given by Mr Percival F. Brundage, C.P.A., Chairman of the Group. Comments and dissents by members of the Group are given in the book itself, and it is to be noted that Mr Brundage himself would have had the report go further in providing

> 'that depreciation charges be converted to the current sales dollar by the use of index numbers.'

Both he and Mr George O. May, C.P.A., favour the use of a general price index rather than specific indices, since the object is to reflect changes in the general price level. They are also against conversion, at present, of items on the balance sheet.

In the March *Journal* Mr George O. May, who was consultant of the Group and was one of the two members who put together the first draft of the report, expresses his belief that further study of the balance sheet problem is highly desirable but that it should not delay adoption of improvements in income determination. He points out that this involves merely

> 'more extended use of concepts and methods that have long had a place among the accepted techniques of financial accounting. . . . Accountants must either accept the challenge or confess their inability to meet it; they cannot ignore it.'

Construction of a Price Index for LIFO

This highly technical subject is discussed in detail by Professor Wm. A. Spurr, PH.D., of Stanford University. It is of significance in relation to the recommendations just outlined, as indicating that indices are now used in the United States by accountants for certain purposes and that their use seems likely to be extended. In the case of LIFO the price index is used to relate opening and closing dollar values of inventories.

Stock Option Plans and the Accountant

Mr Everett J. Mann, C.P.A., Associate Professor of Economics, Duke University, points out the danger to investors of the growing practice by which large concerns attract and retain executive members by giving them incentives such as stock options and deferred compensation agreements. These take the place of cash incentives, which have little appeal where only 12 cents in the dollar are retained after tax. But the outside shareholders' equity is clearly in danger of being gravely diluted. Professor Mann stresses the serious long-term diminution of profits which may result from compensation plans which give present employees claims upon income far into the future, long after their own usefulness has ceased. He would have accountants recognize any such claims upon future income by a segregation of funds from retained earnings, with annual transfer back as payment is made each year. Since these plans are concerned with tax avoidance, Professor Mann raises the question of ethics and asks whether the accountant has not gone too far in encouraging such schemes. He reminds him that his first duty is to the stockholders and that he also has responsibilities to his government.

The Canadian Chartered Accountant, Toronto, February

The Taxation of Capital Gains

The Dominion Income Tax Act of 1948 omits any definition of 'income' such as was given in

the earlier Act. In an address to the third annual conference of the Institute of Public Administration of Canada, Mr W. F. Lougheed, M.A., considers this omission. He says that the determination of the basic concept of income is now left to the Courts exclusively. This leads to the question whether the Canadian Courts are likely to interpret the word 'income' more broadly than in the past, when British decisions were followed. Two recent decisions are quoted as apparently based on a United States case in which it was suggested that

> 'the test of taxability is the presence of an intention to make a profit';

a test which would leave few tax-free capital gains. The Canadian Minister of Finance has denied any intention to tax capital gains but Mr Lougheed asks whether a formal 'spelling out' is not desirable.

The New York Certified Public Accountant, New York, February

Audits: Planning and Review

Mr Weldon Powell, C.P.A., discusses in some detail various features of audits in the United States. The American Institute's Committee on Auditing Standards issued in 1947 a tentative statement of auditing standards. At the annual meeting of the Institute in 1948 it was agreed that the expression 'generally accepted auditing standards', in audit reports or certificates, should be deemed to refer to the nine standards set forth in the tentative statement. Three of these standards are general, relating to the personal qualifications of the auditor – his training, his independence, his exercise of due care. Three are standards of field work – preparatory planning, evaluation of internal control, competence of evidential matter. Three are standards of reporting – generally-accepted accounting principles, consistency, adequacy of disclosure. Mr Powell deals, among other things, with the use of formal questionnaires, particularly in regard to internal control, work programmes and working papers. It is to be noted that he does not favour

> 'rigid standard questionnaires, work programmes or check lists which purport to be all-inclusive and to be suitable for universal use.'

But he does favour

> 'flexible standard forms which are designed to suggest rather than to prescribe procedures. . . .'

In general, North American practice is probably far more standardized than that in Britain and much attention is given to the preparation of methodical working papers.

WEEKLY NOTES

The Irish Institute's Year

The report for the year ended December 31st, 1951, of the Council of The Institute of Chartered Accountants in Ireland shows that at that date the Institute had 787 members as against 766 at the same date last year. The number of articles of clerkship registered in 1951 was 99 as compared with 86 in 1950. The income and expenditure account for the year shows a loss of £105 as against a surplus of £712 for 1950. This is accounted for mainly by increased expenses as a result of the Institute acquiring larger premises at 7 Fitzwilliam Place, Dublin. The two district societies in Dublin and Belfast continue to flourish. The latter now has an industrial and administrative group within the society, consisting of members in commerce or in the Civil Service. About 40 per cent of the Institute's total membership is engaged in occupations outside the profession.

As a means of improving the standards of the profession, Mr Herbert E. A. Addy, F.C.A., in the course of his presidential address, suggested that each new entrant to an accountant's office should serve a short probationary period before formally becoming articled.

Finance Bill in Committee

The Committee Stage of this year's mammoth Finance Bill continues its ponderous progress. On May 8th, on clause 6, a concession was announced. The new licence duty of £12 10s for motor-cars, which comes into force next year, represents an increase of 25 per cent for most cars. However, for pre-1947 cars of less than 8 h.p., the percentage increase is greater and it has now been agreed to restrict that increase to 25 per cent. Relatively few cars are involved and the cost of the concession will be only £15,000.

On purchase tax, clause 7 provides for the termination of the utility scheme for clothes, textiles and furniture, and for the introduction in its place of the scheme recommended by the Douglas Committee. Much time was devoted last Monday and Tuesday to amendments designed to raise the tax-free limits, known as 'D's', for different classes of garments as set out in the Fourth Schedule to the Bill. In particular a plea was made on behalf of persons of more than normal size.

The Chancellor stated that these 'D' amounts are based on statistical investigations and said that to

interfere with individual items now would cause 'the most terrific mess'. Moreover to raise the 'D's' to the old utility levels would cost between £30 million and £40 million and increase the disparities inherent in the scheme.

As an alternative the Government had decided to reduce the purchase tax rates by one-quarter in respect of garments, footwear, cloth and textiles, that is, from 33⅓ per cent to 25 per cent and from 66⅔ per cent to 50 per cent, as from May 14th. The necessary amendment was eventually carried without a division. It will cost £17 million in a full year and £10 million this year.

Notwithstanding the 'terrific mess', some alteration of 'D' amounts were in fact agreed to, notably in respect of fur coats, bootees and slippers.

Rent Control

The Chartered Auctioneers and Estate Agents' Institute has submitted to the Minister of Housing and Local Government a memorandum which discusses the present position of rent control and makes suggestions for its improvement.

It supports the immediate adoption of the plan submitted by the Royal Institution of Chartered Surveyors last May and which was discussed in this journal on May 26th, 1951, at page 506. The plan involves an increase in the rent of controlled houses to put landlords in funds to carry out necessary repairs, the increase being computed by reference to the statutable deduction for repairs and the rise in their cost since before the war. The Institute would modify the plan in relation to houses with very low rents by providing for a minimum increase. It is well known that many rural houses are let at rents which bear no relation to actuality.

On the subject of consolidation of the Rent Restriction Acts, the Institute repeats the recommendation of the Ridley Committee, made as long ago as 1945, that there should be a single comprehensive and understandable Act. The Institute's long-term proposals for fixing permissible rents are linked with the coming rating revaluation and involve an attack on the provisions of Part IV of the Local Government Act, 1948. The Institute would fix basic rents by reference to a valuation on a 1938 basis, with additions for the increased cost of repairs and other landlord's burdens, together with 8 per cent of the cost of any improvements. Where the tenant sublets, the landlord would be allowed to add another 10 per cent of the basic rent. In addition, Parliament should consider whether landlords should be compensated for the fall in the value of money since 1938, in view of their inability to take advantage of the scarcity of houses, in fixing rents. Houses built since 1945 or in respect of which the sitting tenant was granted a lease of reasonable length would be freed from control.

The Institute would reverse a recent decision that the transmissibility of occupation rights under the Acts extends to contractual, as well as statutory, tenants (*Moodie v. Hosegood* ([1952], A.C. 52)), and would increase the number of grounds on which possession can be obtained from a protected tenant. Possession should, it is stated, be granted automatically when the rent was thirteen weeks in arrear.

Standardized New Issue Forms

Any form which is straightforward in layout and is designed to save clerical labour is something of a novelty in this over-complicated world. A welcome, therefore, should be extended to the standard forms of letters of right and allotment which have been devised jointly by the Share and Loan Department of the Stock Exchange, the officials of the principal banks, the Chartered Institute of Secretaries and the Issuing Houses Association with the technical assistance of the Solicitors' Law Stationery Society, Messrs Jordan & Sons Ltd, and Messrs Waterlow & Sons Ltd. There are five specimen forms: (*a*) the provisional letter of allotment where the last date for registration and the last date for payment coincide; (*b*) the provisional letter of allotment where the last date for registration exceeds the last date for payment; (*c*) the letter of rights, as an alternative to the above, together with (*d*) the letter of allotment; and (*e*) the fully paid letter of allotment.

The omission of Declaration 2A of Form D of the Exchange Control Act (the form for which, on the comparatively rare occasions it is required, can be supplied by the bank or other authorized depository undertaking the non-resident's business) saves considerable space which has been utilized to print the detailed instructions in large and easily readable type. Another improvement is the box on the front page of each form to contain the dates of the various stages of the issue, such as the last dates for splitting, renunciation and acceptance, and the name and address of the bank for lodging the documents.

It is not proposed to make the use of these particular designs obligatory but it is hoped that, in the interests of quickness and clarity, they will become generally adopted.

A British Productivity Council

The very notable, imaginative work accomplished by the Anglo-American Council on Productivity is now drawing to a close. Last week it passed a resolution to the effect that a joint organization is no longer necessary. The council as such and the United States section of it will come to an end on June 30th. So ends a unique and fruitful phase of industrial collaboration which is having an important influence on the efficiency of British industry. The remainder of the team reports still to be published will be brought out under the auspices of the British section.

A British Productivity Council is to be established, however, under the auspices of the Trades Union Congress, the Federation of British Industries and the British Employers' Confederation. This will carry on the work of the joint council in this country. The participating bodies will contribute financially and the Government is likely to make a grant.

Wider Trade Gap

Preliminary figures for this country's external trade in April show a notable worsening of the deficit compared with March. Exports, including re-exports, were down heavily from £265 million to £221 million, while imports fell by only £8 million from £333 million to £325 million. By a coincidence the trade deficit for the first four months of this year is now almost equal to that for the same period a year ago.

The poor performance by exports can be explained to some extent by the fewer working days compared with March, and to the fact that Easter fell in April this year. But such points tell in the opposite direction when it comes to finding reasons for the small decline in imports. It will not be possible to tell how far the cuts by other members of the Commonwealth have affected this country's trade prospects until the final figures are available. Until then the statistics can only be described as acutely disturbing.

So far as exports to the dollar area are concerned, the figures are rather more reassuring. Shipments to the United States were slightly lower than in March but there was a special item of £2 million in that month. On the other hand, exports to Canada continue their recent slow but steady advance. These two categories together were £20·5 million which compared with a monthly average for the first quarter of the year of £20 million.

Retail Trade in March

Judging from the March retail trade figures there was a notable improvement in activity in the shops over that month but not sufficient of a come-back to put turnover on to the same level as in March a year ago. If one month's change of trend can mean anything, the March figures suggest that business is better for consumer goods but that it is showing signs of levelling off somewhere lower than in 1951.

It should be recalled, however, that March this year contained the Budget which is an unsettling factor and, unlike last year, did not have the stimulus of immediately pre-Easter buying since Easter was in April this year. If comparison is made with 1950 when Easter was also in April, there are signs that the values of sales in the groups which have recently been having a difficult time (such as men's wear, furnishings and hardware) are comfortably above the experience of two years ago. But when allowance is made for a considerable increase in prices over the same period, it is clear that there has not been as high a volume of business in March as in that month for 1950 – and certainly not as high as for 1951.

FINANCE AND COMMERCE

Economic and political uncertainties have caused stock markets to drift into a state of indecision and inactivity. With recent support withdrawn, scattered selling has brought easier conditions to the gilt-edged market and consequently to other sections. There seems little prospect of real improvement in the immediate future. 'Wait and see' is the prevailing investment attitude.

Inflation Accounting

We reprint this week the consolidated balance sheet of the British-American Tobacco Co Ltd. These accounts make an interesting contribution to the subject of accounting for inflation. The profit and loss account, which for reasons of space we are unable to reproduce, is credited with a total of £7¾ million for transfers to fixed assets and stock replacement reserves.

Note 10 on the accounts, to which the item directs attention, states: 'The transfers to fixed asset and stock replacement reserves, including the leaf devaluation surplus, represents an estimate of the amount which, in the opinion of the directors, must be retained out of profits towards maintaining over the year part of the real capital of the group represented by fixed assets and stocks, having regard to the inflationary conditions prevailing.

'The total of transfers made by subsidiaries has been adjusted for purpose of consolidation. The 1950 figures were not computed on the same basis and accordingly are not comparable with those for the current year.'

'LIFO' Basis

In an 'explanatory statement' which accompanies the accounts, attention is drawn to the fact that transfers to fixed asset and stock replacement reserves amount for the group to £9,238,000, including £2,469,000 in respect of the holding company. These transfers, it is stated, 'have been made before arriving at the net available profit for the year because in the inflationary conditions prevailing generally throughout the world, additional funds must be retained within the Group, quite apart from the financing of any expansion of the Group's business.

'In assessing the amount included in respect of stocks, the directors have had regard to the adjustment that would have been required had opening and closing stocks been valued on a "last in first out" basis instead of the average cost basis adopted in the balance sheets.

The British-American Tobacco Co was formed fifty years ago to acquire the export and overseas business of the Imperial Tobacco Co (of Great Britain and Ireland) Ltd. The company does not itself trade in this country its revenues being largely derived from subsidiary and associated companies operating mainly overseas.

Revaluation Reserve

A reader who sent us the accounts of Maple & Co Ltd, the well-known furnishing and decorating company, was rather put out because he could not find a reserve which has resulted from a writing-up of

fixed assets. The matter is referred to by the chairman, Mr C. C. Regnart, in his statement with the accounts. He says: 'You will notice that we have had our properties revalued by Messrs Knight, Frank & Rutley, which has increased the balance sheet value by £1,706,135, a similar sum having been placed to building reserve'. It would not be unreasonable, therefore, to expect to see a building reserve in the balance sheet but no such reserve appears to exist.

This revaluation of the company's properties is also the subject of one of the notes on the accounts. The note explains that the revaluation has been made of the company's properties in England and that 'the new values have been incorporated in the company's accounts, the surplus arising therefrom having been transferred to property reserve account'.

No Tie-up

The explanation given in the note to the accounts accords with entries in the appropriation account for the year which is credited with £1,706,135 for 'appreciation on revaluation of property' and debited

BRITISH-AMERICAN TOBACCO
AND SUBSIDIARY
Consolidated Balance

	1951 Authorized £	1951 Issued £	£	Comparative Figures for 1950 Authorized £	1950 Issued £	1950 £
I. Capital and Reserves						
Capital of British-American Tobacco Co Ltd:						
5 per cent Cumulative Preference Stock	4,500,000	4,500,[illegible]00		4,500,000	4,500,000	
6 per cent Second Cumulative Preference Stock ..	6,000,000	6,000,[illegible]00		6,000,000	6,000,000	
Ordinary Stock	23,757,761	23,757,[illegible]61		23,757,761	23,757,761	
Ordinary Shares of £1 each	1,742,239	—		1,742,239	—	
	£36,000,000		34,257,761	£36,000,000		34,257,761
Capital Reserves:						
Legal and Statutory Reserves		1,901,[illegible]95			1,628,914	
Interim Excess Profits Tax Post-War Refunds (Note 18)		1,830,[illegible]22			1,936,338	
Preference Share Redemption Fund (Note 19)		142,[illegible]16			104,208	
Consolidation Reserve (Note 20)		8,967,[illegible]97			8,139,902	
Other Capital Reserves (Note 23)		20,707,[illegible]58			19,167,243	
			33,548,988			30,976,605
Revenue Reserves and Undivided Profits:						
General Reserves		22,941,[illegible]79			17,174,051	
Fixed Asset and Stock Replacement Reserves..		28,260,[illegible]39			19,054,077	
Other Revenue Reserves		9,390,[illegible]99			6,593,501	
Profit and Loss Accounts:						
British-American Tobacco Co Ltd	£4,073,915			£3,896,239		
Subsidiaries	10,744,461			10,088,279		
		14,818,[illegible]76			13,984,518	
			75,410,693			56,806,147
			143,217,442			122,040,513
Note. – Revenue Reserves and Undivided Profits of overseas Subsidiaries included above amount to £40,663,000 (*1950, £28,693,000*) in respect of which no provision for United Kingdom Taxation has been made as no liability arises unless they are distributed by the Subsidiaries concerned.						
Reserves for Future United Kingdom Income Tax assessable for periods subsequent to September 30th, 1951, in respect of income to that date			6,860,037			6,194,047
II. Interest of Outside Shareholders in Subsidiaries						
Net Tangible Assets attributable to shares in Subsidiaries held outside the Group *less* Outside Shareholders' Interest in Reserves for Future United Kingdom Income Tax			17,064,070			12,916,216
III. Debentures and Loans						
Debentures and Loans (secured)		11,424,[illegible]9			11,419,473	
Unsecured Loans		9,[illegible]5			259,525	
			11,433,944			11,678,998
			178,575,493			152,829,774
IV. Amounts owing to Subsidiaries not Consolidated			334,935			389,084
V. Current Liabilities and Provisions						
Current Liabilities:						
Bank Overdrafts		2,42[illegible],[illegible]2			3,036,254	
Creditors and Accrued Charges		28,604,[illegible]8			27,942,627	
Outside Shareholders for dividends (*less* Income Tax in appropriate cases)		263,[illegible]9			226,161	
Accrued Preference Dividend of British-American Tobacco Co Ltd (*less* Income Tax)		78,[illegible]0			82,500	
Proposed Ordinary Dividend of British-American Tobacco Co Ltd (free of Income Tax)		1,187,[illegible]8			1,187,888	
		32,560,[illegible]7			32,475,430	
Provisions:						
United Kingdom Taxation assessable for periods up to September 30th, 1951	£7,757,058			£7,769,558		
Overseas Taxation	14,895,375			15,318,559		
Employees Benefit Funds..	2,746,664			2,342,220		
Other Provisions	1,929,120			1,920,426		
		27,328,[illegible]7			27,350,763	
			59,889,104			59,826,193
			£238,799,532			£213,045,051

with the same amount as a 'transfer to property reserve (per contra)'.

It so happens that there is a property reserve in the balance sheet, only it comes under revenue reserves and the amount in it is only £35,348. It is evident, therefore, that the 'property' or 'building' reserve must be entered in the balance sheet as a deduction from the relevant assets, but unfortunately there is no direct tie-up between the amount of £1,706,135 and the figures in the fixed assets group where some alteration has been made in the lay-out, but the heading 'written off or reserved' maintained.

Incidentally, our reader wonders whether 'cost or written-down value' should not be 'written-up' in this instance.

Money Market

There was a drop of over £26 million to £300,485,000 in Treasury bill applications on May 9th. Bidding at £99 9*s* 2*d* the market received 68 per cent of requirements and the average discount rate advanced to £2 7*s* 4·11*d* per cent. This week's offer is maintained at £230 million or £60 million more than maturities.

COMPANY LIMITED

COMPANIES

Sheet, September 30th, 1951

	1951 Cost £	1951 Depreciation £	1951 £	*Comparative Figures for 1950* *Cost* £	*Depreciation* £	£
I. Fixed Assets						
Freehold Land and Buildings	14,776,652	3,122,356	11,654,296	*12,035,468*	*2,914,206*	*9,121,262*
Leasehold Land and Buildings	3,111,925	643,865	2,468,060	*3,278,638*	*482,683*	*2,795,955*
Plant, Machinery and Equipment	25,880,698	10,464,708	15,415,990	*21,572,995*	*9,052,539*	*12,520,456*
	£43,769,275	14,230,929	29,538,346	*£36,887,101*	*12,449,428*	*24,437,673*
II. Subsidiaries, not Consolidated (Note 15)						
Shareholdings, at cost, *less* provisions and amounts written off ..		£5,731			*£112,349*	
Debentures, at cost		—			*33,670*	
			5,731			*146,019*
III. Trade Investments						
At Cost		7,075,754			*7,074,599*	
Less Amounts written off		1,080,535			*1,087,380*	
			5,995,219			*5,987,219*
IV. Current Assets						
Stocks of Leaf, Manufactured Goods and Materials at average cost or under		142,658,244			*119,100,355*	
Debtors		29,645,712			*26,292,316*	
Difference on Current Accounts with Subsidiary whose Accounts are not coterminous		93,189			*141,368*	
Investments at cost or under:						
Quoted in Great Britain	£1,070,106			*£988,538*		
Quoted abroad	192,601			*295,679*		
(Market Value £1,312,426 – *1950, £1,306,465*)	1,262,707			*1,284,217*		
Unquoted (including overseas Government Treasury Bills £3,912,550)	4,708,349			*940,879*		
		5,971,056			*2,225,096*	
Tax Reserve Certificates		—			*40,000*	
Balances at Bankers and Cash in Transit		24,892,035			*34,675,005*	
			203,260,236			*182,474,140*
			£238,799,532			*£213,045,051*

Note. – In considering the Consolidated Balance Sheet, regard should be had to the fact that Exchange controls and other regulations in many parts of the world impose restrictions on the transfer of assets between individual companies of the Group.

The references are to the notes on pages 9 and 10, which form part of this Consolidated Balance Sheet.
(Not reproduced. – Editor.)

On behalf of the Board,
T. F. WINMILL
D. M. OPPENHEIM } *Directors.*

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Creditors' Voluntary Liquidation: Director's Claim

SIR, – The circumstances outlined by 'Liquidator' in your issue dated May 3rd seem to indicate that the director concerned acted in the capacity of director only, and not in any other capacity. Further, it seems clear that his salary has been confirmed at each annual meeting and that the failure to get the salary passed in the last period was due to the fact that no annual meeting was held, liquidation having supervened. It is considered, therefore, that 'Liquidator' would not be on good ground in attacking the weekly salary previously paid but not confirmed, as it appears to have been for services rendered, but the question of priority is in a different category, and it has been held that a director is not a clerk or servant and thus not entitled to preferential payment (*Re Newspaper Proprietary Syndicate Ltd* ([1900] 2 Ch. 349) and *Re Normandy v. Ind Coope & Co Ltd* ([1908] 97 L.T.R. 872)).

The answers to the specific inquiries are therefore:

(*a*) The director should not be admitted as a preferential creditor.

(*b*) The preferential claim should be rejected.

(*c*) Although strictly a director is not entitled to remuneration unless properly voted, 'Liquidator' would be ill-advised to commence an action to recover a weekly salary if valuable services have been rendered.

In case of further doubt, the liquidator's solicitor should be asked to take counsel's opinion on the particular facts of the case.

Yours faithfully,

Hull. S. D. MOORE.

Presidential Speeches and Inflation

SIR, – Whilst agreeing with Mr J. D. Bailey, in his letter published by you on May 10th, that Lord Latham's address to members of the Association contained no new solutions to the question of replacement costs, I do feel that Lord Latham deserves credit for the forthright attitude he has adopted in his recent utterances on this subject.

For too long we have listened to the cries that go up, often from those who should know better, whenever a public company announces increased 'profits'. Recent speeches by the presidents of the Society and the Association have been of great value in giving a public airing to a matter which has received all too little attention outside accountancy and business circles.

Reticence is an attribute with which most accountants are well endowed, but a certain outspokenness on the present difficulties facing industry in its attempts to maintain capital intact would not be amiss. It is time that the true position was made more clear to the general public and so help to counter the misrepresentations from other quarters.

Any pronouncements by the presidents of the accountancy bodies are, therefore, to be welcomed as performing a valuable service to industry and the country. It is gratifying to note that such speeches are becoming more frequent and, further, that they are receiving increasing attention from the more responsible journals.

Accountants in high office should take every opportunity of stressing this problem in their speeches, as a sign of their awareness of the need to make the effects of monetary inflation upon industry more universally appreciated.

Yours faithfully,

Hampstead, London, NW3. D. F. GOCH.

Deeds of Covenant in Favour of Charities

SIR, – With the extension of the range of reduced rates of income-tax, there is a considerable increase in the number of taxpayers who do not pay the standard rate on any portion of their income. I should be interested to know whether any of your readers have considered fully the effect on deeds of covenant made in favour of charities where the minimum period of seven years is incomplete.

Presumably the charity will still make its claim and receive the benefit of tax repayment in full, i.e. 9*s* 6*d* for every 11*s* 6*d* of the contribution. The donor will at some stage be called upon to pay the difference between the standard rate and his highest rate. As a majority will pay their tax by P.A.Y.E. deductions under Schedule E, I suppose the Revenue will achieve their purpose by an adjustment of individual code numbers. However, they cannot, at the commencement of a year, foresee whether any taxpayer will, by the end of the year, pay at the standard rate on any of his income. Does this mean that they can only adjust an individual's tax after the close of the year? In this case there will be come charities who obtain refunds before the tax has actually been paid!

Perhaps someone would care to contemplate the possible changes over a period of seven years during which a donor's circumstances (and allowances) might change considerably.

It would be interesting to hear of any donees considering it necessary to take action to secure payment from covenantors. I believe some hospital authorities did so after the nationalization of hospital services which made some contributors try to avoid completing their obligations under covenants.

Yours faithfully,

C. A.

THE PROFESSION FROM OUTSIDE

An address by Sir JOHN H. E. WOODS, G.C.B., M.V.O.

A luncheon meeting of the London and District Society of Chartered Accountants was held on Monday, April 21st, at the Connaught Rooms, Kingsway, WC2, and was attended by 220 members and guests. The Chairman of the Society, Mr G. D. F. Dillon, B.A., F.C.A., presided.

At the conclusion of the luncheon, Sir John H. E. Woods, G.C.B., M.V.O., a former Permanent Secretary, Board of Trade, and a member of the Economic Planning Board from 1947–51, addressed the company. During the course of his talk Sir John spoke of his early association with the 'Trade Facilities Advisory Committee', saying:

'First Look for the Cash'

'The first thing I had to do was to interview the Chairman of the Committee, Sir William Plender, as he then was. I gave him some extremely nasty shocks. Why in a balance sheet did profit appear as a liability? I would like to say here and now I am not at all sure that I have ever had a wholly satisfactory answer.

' "First look for the cash", said Sir William, "then look for the balance between creditors and debtors"; I still follow that advice but what I usually find is an enormous bank overdraft and a huge provision for taxation.

'I do not suppose that I could have been introduced to balance sheets and profit and loss accounts by a better man. Sir William Plender was one of the really outstanding men who helped to build up the accountancy profession, to establish its extremely high standards of professional integrity and independent judgment, and to establish the great confidence which it enjoys among traders and industrialists in this country and, indeed, throughout the world.'

Protection of Shareholders

Sir John continued:

'When I think seriously of your profession, I believe that the first and primary duty of the auditor is to protect the shareholders of the company. My personal belief is that in fact you also protect the consumer and the public generally in an indirect kind of way. The protection you afford is against the possibility of malpractice of one kind or another by boards of directors or management, against misleading or fly-by-night flotations, and so on.

'As, I believe, management in this country has, by and large, achieved a high standard of performance and integrity, and although we are well past the days of those things called "projects" (such as the South Sea Bubble), this protection is still a vitally necessary thing. I would therefore mark down the protection of the shareholder as still being the primary duty of the accountant and auditor – a duty which must not be damaged or prejudiced or whittled down in any way.

'In all fields of economic activity, each of which spawns its own experts, the expert who is *always* there is the accountant. It seems to me to be true that the decisive test in economic activity is nearly always profitability.'

Speaking of measurements, Sir John said that engineers measured to a millionth of an inch – astrophysicists measured in billions and trillions of miles – economic affairs were measured by national income, balance of payments, estimates of demand for consumption, and capital goods, and so on. We even set to work to measure public opinion about this and that.

The Accountant a Trained Measurer

This might be thought to suit the accountant down to the ground because whatever else he might be he is intended to be in his own field a trained measurer. Sir John continued:

'How reliable are all these measurements we are talking about? and what about the factors in business and economic judgment and decision which still, in my opinion, defy measurement?

'What we must not do is to have an absolutely blind faith in our measurements when we have done them – especially when they are projected forward.

'We have had some sharp reminders lately of how rapidly positions can change – who would have thought that the balance of payments of the United Kingdom and sterling area could have moved so far and so fast in the wrong direction during 1951?'

After speaking of the sharp rise and fall of wool prices and the difficulties in the textile and steel trades, he continued:

'First of all, what are you in your profession measuring against? The total background and the surrounding circumstances of your craft are greatly different from what they were before the war and they still seem to me to be changing very rapidly – the value of money is much less stable, currency is not convertible, taxation is crushingly high.

Maintenance of Capital

'Is it not possible or probable that many companies showing on their accounts quite handsome profits are not in fact maintaining their capital? Anyone is free to hold the opinions, if he likes, that it does not matter, or even that it is positively a good thing if the shareholders' capital is being eroded. But I do not see how anybody can deny that *if it is so* the fact should clearly appear and be known.

'I know that this particular type of question is one that is familiar to you all – I am sure that it is the subject of anxious consideration by all of you as individuals and also collectively by the Institute.

'It is not for me to suggest what the answers are but what I do say is that they are emphatically not questions that can wait very long for an answer.'

Discussing the work of an accountant as regards a company, Sir John said that it was the duty of an auditor and accountant to exercise an impartial and independent judgment on the accounts as they were produced, to penetrate into every hole and corner, to act as umpire and to earn for himself the title of 'protector of the poor' (the poor being, in this case, the shareholder) and to be the trusted adviser of the management of the company whose accounts he was investigating. He concluded:

'These are very difficult times – they are also exciting and interesting times. I should say that we are in fact in the middle of an economic revolution – and what will be the end of it, God knoweth. But in that part of this evolutionary process which concerns manufacturing and trading organizations, it is my belief that your profession has a very large and constructive part to play.'

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SEVENTY-FIRST ANNUAL MEETING

The seventy-first annual meeting of The Institute of Chartered Accountants in England and Wales was held on Wednesday, May 7th, 1952, at the Chartered Insurance Institute, 20 Aldermanbury, London, Mr Charles William Boyce, C.B.E., the President, being in the chair.

THE PRESIDENT said: Ladies and gentlemen, may I assume that you would wish to take the notice convening the meeting and the auditors' report as read. (Agreed.)

Before I proceed with my address, I think you may like to know whom I have with me on the platform today.

On my left is Mr T. B. Robson, the Vice-President, Sir Nicholas Waterhouse, Sir Russell Kettle, Mr Garton Ash, Mr Wilkinson and Mr Harvey; on my right is Mr A. S. MacIver, Mr George Freeman, Sir Harold Barton, Mr Gilbert Shepherd, Mr B. H. Binder, and Mr Loveday.

The President then delivered the following address:

PRESIDENTIAL ADDRESS

His late Majesty King George VI

On 6th February the Council of the Institute was assembling for its monthly meeting when news was received of the death of our beloved King. At the opening of that meeting our hearts were too full for many words to be spoken but the Council paid silent tribute to one who throughout his reign had not spared himself in his devotion to the interests and well-being of his subjects at home and overseas.

The text of the resolution of sympathy and loyalty which was passed by the Council and which on their behalf and on behalf of all members of the Institute was forwarded to H.M. The Queen appears on the opening page of the annual report.

We are all profoundly grateful that our new Sovereign is one who has already given proof of her courage and ability to uphold the traditions of self-denying service handed down by her ancestors.

Those who were privileged to be present at the reception and luncheon given in honour of Princess Elizabeth, as she was then, and the Duke of Edinburgh on their return from Canada last November must have left Guildhall with feelings of admiration and pride, admiration for the charm of manner and dignity of deportment of our young Princess, and pride in the thought that one day we should acclaim her as our Queen, though none could have expected that day to come so soon.

The Year 1951

The annual report for the year 1951[1] which I now present for your consideration has been issued to all the members of the Institute, and is such a comprehensive document and covers so fully the activities of the Institute during the past year, that I feel sure you would not wish me to go through it in detail. I therefore propose to confine my remarks to those matters which appear to call for particular comment.

In the first place I must refer to the loss which the Council has sustained through the death of one of its members, Mr Graham Adam, of Newcastle upon Tyne. Mr Adam was elected to the Council in 1944 and at the time of his death was Vice-Chairman of the Applications Committee and a member of the District Societies Committee. He was most conscientious in his attendance at Council and committee meetings and is much missed by his colleagues on the Council.

That the activities of the Institute show no sign of diminution is apparent from the number of Council and committee meetings held during the year. In all 192 meetings were held as compared with 185 meetings in 1950 and when it is mentioned in the report that attendances at meetings of the Council and of the committees were in total 88 per cent of the possible attendances, and there was a similar percentage in 1950, it can, I think, be claimed that the members elected to represent you on the Council have not neglected their duties.

The Taxation and Research Committee and its various sub-committees have also had an exceptionally active year. Altogether 110 meetings have been held as compared with 71 meetings in 1950 and during the year the Committee performed a major operation in connexion with the preparation of a memorandum for submission to the Royal Commission on Taxation of Profits and Income. In this task, which I think proved to be the one of the greatest magnitude yet undertaken, the Committee enlisted the assistance of the regional committees of all the district societies and, as a result, the document in its final shape, after incorporating amendments suggested by the Parliamentary and Law Committee and by the Council, could be said to represent a good cross-section of the views of the members of the Institute in all parts of the country. The Council is grateful to that large body of members forming the main and regional Taxation and Research Committees who give their time and the benefit of their experience to the very important work which falls upon them in those committees.

Constitution of the Council

The vacancy on the Council arising on the death of Mr Graham Adam has been filled by the election of Mr R. P. Winter of Newcastle upon Tyne.

Mr Winter is the President of the Northern Society of Chartered Accountants and the Council welcomes his co-operation in the Council Chamber and in the committee room.

Examinations

The results of the examinations held in May and November 1951 are set out on page 19 of the annual report. As compared with the results for the year 1950 there is an improvement in the percentage of passes in the Final examination, 47·14 per cent as compared with 42·45 per cent but there is a downward trend in

[1] Reproduced in *The Accountant*, dated April 26th, 1952.

the Intermediate examination where over the two examinations the percentage of passes is only 44·43 per cent against 46·32 per cent in 1950, and furthermore the percentage of passes in the November examination dropped to 41·35 per cent. The results are disappointing. It may be that some students have not commenced serious study as soon as they might have done after entering into articles and that possibly full advantage has not been taken of the facilities provided by the Students Societies in the way of tuition classes and lectures. I cannot too strongly urge on all principals the importance of watching the progress of their articled clerks and of satisfying themselves that they are carrying out their course of study in a methodical manner. As Mr Garton Ash pointed out at the last annual meeting, principals should insist on seeing failure notices issued to unsuccessful candidates. It may be that an articled clerk shows no aptitude for accountancy work and in such cases it would probably be a kindness to suggest to his parents that they should consider some other occupation more suited to him.

Education and Training for Membership

In my presidential address at the Autumnal Meeting at Torquay last October and again in the annual report, reference has been made to the report by a Special Committee on Education for Commerce set up by the Minister of Education under the chairmanship of Sir Alexander Carr-Saunders. It is unnecessary for me to repeat all that I said at Torquay or what appears in the annual report but I would like to emphasize that in the discussions which the representatives of the Council had with the Under-Secretary for Further Education and other officers of the Ministry of Education, misunderstandings were removed which appeared to exist regarding the position of the Institute and its relation to the Carr-Saunders Report.

After our discussions I felt that the representatives of the Ministry of Education were satisfied that the Institute's whole system of training under articles is the one best fitted to ensure that the future members of the Institute have received a thorough grounding in the work of the profession.

The Training of Articled Clerks

Reports received from some students' societies indicate a falling off in the attendances at lectures and other functions. Committees of students' societies give a great deal of time and thought to the preparation of the programme of lectures, debates, discussions and other matters of interest to students and it is disappointing to hear that these meetings are not supported as fully as they deserve to be. It may be that some students have the mistaken idea that if the subject-matter of the lecture, debate or discussion does not appear to have an immediate bearing on their examination work, attendance would be a waste of time. Far from it, there is such a thing as wider education and by attending these functions of whatever character they may take, the student is increasing his store of general knowledge which will stand him in good stead not only in his professional life but in the immediate examination problem. From some of the answers to examination questions I have seen, I feel sure many stupid answers would have been avoided if the candidate had taken advantage of the lectures and other facilities.

All these functions have great value in making students conversant with procedure at meetings, in introducing them to leading members of the profession, in providing opportunities for students to discuss their experience and problems with each other and in cultivating that sense of corporate responsibility without which a student cannot later take his proper place in the profession.

Demonstrations of accounting machines and office equipment, visits to the offices and works of companies and to long established organizations, such as the Stock Exchange, the banks and various commodity exchanges, all play their part in broadening the knowledge and education of the students.

Many of the students' societies have now arranged for short residential courses, of varying duration, in their areas. These courses go some way towards solving the problem of the 'distant' student, that is, the articled clerk who does not reside in, or close to, the town in which a students' society has its headquarters, and also have proved to be most valuable to other types of students. They appear to deserve encouragement and I hope other areas will endeavour to arrange similar courses, for which purpose it may probably be desirable for two or more societies to make combined arrangements.

The Council is anxious that principals should give every encouragement to articled clerks to attend the lectures and other functions arranged by the students' societies and also give every facility to articled clerks to take advantage of a residential course if one is held in their area.

The problem of the 'distant' student can only be approached through the co-operation between district societies, students' societies and principals and it is a step in the right direction that two new students' societies have been formed by branches of district societies during the year.

District Societies

The annual report in paragraph 71 refers to the annual discussion between representatives of the district societies and of the Council which took place on November 8th, 1951. Each district society is invited to put forward matters for discussion and it may happen, as it did this year, that the number of matters submitted made the agenda very unwieldy. Under such circumstances the General Purposes Committee had to decide which items could be most usefully left on the agenda and which items would have to be placed so low upon the list of subjects that they were unlikely to be reached in the time available.

The Council is most grateful to the district societies for keeping it in touch with matters to which they think its attention should be directed and even though time could not be found to discuss a few items which, however, had been fully discussed at similar meetings in recent years, the conference was of a most constructive and helpful character. For my part, I hope that district societies will not hesitate to put forward subjects for inclusion in the agenda of future meetings which they think it will be to the advantage of the Institute to have discussed between their representatives and those of the Council.

Summer Course and Autumnal Meeting

Two outstanding events have taken place during the year. I refer to the Summer Course at Christ Church, Oxford, and the Autumnal Meeting at Torquay. From

the personal experience gained at these functions, I am more than ever convinced that they play a most valuable part in the Institute's activities and bring together members from all parts of the country to their mutual advantage. From the standpoint of wider education the summer course has much to commend it, particularly in the opportunity which it offers to our members in participating in discussions on a variety of subjects of interest to the profession in the serene atmosphere of one of our most historic colleges. The Summer Course Committee has done a wonderful job of work in arranging the courses and I have no doubt that the course arranged for next September will prove as instructive as those which have preceded it.

Although the social side is more in evidence at an autumnal meeting than at the summer course, nevertheless the instructional side attains a very high standard and I am confident that the papers read at Torquay and the discussions which followed them must have proved of great value to those who were privileged to be present. The Bristol and West of England Society are to be congratulated on a most successful and enjoyable meeting and we look forward with eager anticipation to the meeting next year at Scarborough at the invitation of the Hull Society.

International Congress

Arrangements for the Sixth International Congress on Accounting which is to be held in the week beginning June 16th, 1952, are well in hand. I would mention that the business sessions will take place in the Royal Festival Hall and not in the Royal Horticultural Society Hall as originally announced.

There are two sides to the activities of the Congress, the business side and the social side. On the business side five papers on topics of great interest to the accountancy profession are to be presented and our grateful thanks are due to those who have expended so much time and thought in the preparation of the papers. Two of the introductory papers will be presented by members of this Institute, Mr G. F. Saunders and Mr F. R M. de Paula.

A large number of delegates and visitors from overseas have intimated their intention of being present and with members of the sponsoring bodies it is expected that provision will have to be made for upwards of 2,500 persons.

To ensure the success of the Congress it is essential that a hearty welcome should be given to our friends from overseas and with this object in view, the Council of the Congress has called for volunteers from the sponsoring bodies, ladies and gentlemen, to act in the capacity of liaison officers to welcome delegates and visitors at their hotels on arrival and generally to give them any advice or help they may require. I trust there will be a good response to this invitation and that in this way members of the sponsoring bodies will give all the assistance they can to ensure the success of the Congress.

In these days of high prices the cost of staging an International Congress has become a very heavy burden for the sponsoring bodies and it is a matter for consideration whether in any future congress a restriction will have to be placed on the number of delegates and visitors from overseas or whether some contribution should be made by each country taking part in the proceedings. At the moment it is not possible to say what the total cost of the Congress will be, but it has been estimated that the share of the cost to be borne by The Institute of Chartered Accountants in England and Wales may be in the region of £10,000.

Taxation

I have already referred to the Institute's memorandum to the Royal Commission on the Taxation of Profits and Income. In due course the Council will, no doubt, be asked to send witnesses to give oral evidence to the Royal Commission.

Over twelve months ago the Council submitted a memorandum to the Tucker Committee on taxation treatment of provision for retirement and offered to send witnesses to give oral evidence in confirmation of the memorandum. The Council now understands that the Committee has decided not to take oral evidence as it is satisfied that the ground has been well covered in the considerable volume of memoranda submitted to it. The report of the Committee on a matter which in these days is of particular importance to professional men is awaited with great interest.

And now we have the Finance Bill, 1952. A memorandum on this Bill has been submitted to the Chancellor of the Exchequer. At the invitation of the Board of Inland Revenue the Council's representatives have had a discussion upon it with representatives of the Board.

Prior to the General Election it was stated that in the event of a change of Government a measure would be introduced to absorb excess profits arising out of the rearmament programme. In the form of an excess profits levy it is now here in the Finance Bill. When excess profits tax ceased I think we all breathed a sigh of relief, industrialists and accountants alike, but here we have another version of the same old tax. With the anomalies which are already apparent it seems very doubtful whether it will have the effect for which it was designed, that is the absorption of the excess profits of companies engaged in rearmament. What does seem to be clear is that it will have a damaging effect on many concerns not remotely connected with the rearmament programme. Like the old excess profits duty and excess profits tax I fear it will again put a premium on extravagance and act as a deterrent to initiative and enterprise. It is to be hoped that in its passage through the House, amendments to the Bill will be made to mitigate cases of hardship without increasing too greatly its many complexities.

The declared aim of the Government is to restore the economic well-being of the country and the first steps towards this end, the raising of the bank rate and the reception accorded to the budget abroad, already show signs of bearing fruit but none can be satisfied until we have full convertibility of the pound sterling. The insidious disease of inflation must at all costs be checked and reduced. Increased production at prices which the consumer is able and willing to pay and increased exports must be the primary aim of all concerned, management and workpeople alike. I say this with full knowledge that in certain industries it is well-nigh impossible for them, at the moment, to increase production and find export markets for their goods. To argue that it is futile to speed up production because when produced there is no market for the goods is a defeatist policy. Only by management efficiency and harder work can we hope to reduce the costs of production and make our goods at a price which is competitive in the markets of the world. The

need for 'cost consciousness' does not only apply to industry; it is equally important that it should be applied to government spending.

It is our duty as accountants to support any measures introduced by the Government which have as their main object the restoration of our currency.

Changing Price Levels in Relation to Accounts

I need hardly remind you of the differences of opinion among business men and among accountants – and indeed among members of the Council – on the subject of accounting in relation to changes in the purchasing power of money. While not wishing to embark on a controversial discussion today, I would like to say how glad I am that this important matter is to be on the agenda of the International Congress. It is fitting that it should be so, for this problem affects all countries at the present time in greater or lesser degree and is, perhaps, the subject which is most frequently debated among accountants of all nationalities.

The Institute Council was one of the earliest bodies to examine and give its views upon the matter in the much-discussed Recommendation XII published early in 1949. This complex subject has been under close review by the Council and in committee for many months past and, at its meeting today, the Council has authorized the publication of a further statement on the subject for the benefit of members. The statement is being printed and should be ready for issue to members in the very near future.

It cannot be emphasized too strongly that the significance of accounts prepared on the historical cost basis is subject to limitations, not the least of which is that the monetary unit in which the accounts are prepared is not a stable unit of measurement; in consequence, the monetary results shown by accounts prepared on the basis of historical cost are not a measure of increase or decrease in wealth in terms of purchasing power. Nor do the monetary results necessarily represent the amount which can prudently be regarded as available for distribution, having regard to the financial requirements of the business.

At the same time the alternatives to historical cost which we have so far examined appear to be full of serious defects and the logical application of some of them would have social and economic repercussions going far beyond the realm of accountancy. We do not therefore feel justified at this stage in advising that a departure from the historical cost basis should be made in preparing annual accounts for shareholders, though we consider that fuller information should be given to the shareholders as to the estimated effects which changes in prices have had upon the affairs of their businesses and we recommend the building up of reserves to reflect those changes. We also recommend experimenting with methods of measuring the effects of price changes on profits and financial requirements and the inclusion of a statement of the basis of the calculations if the results of these experiments are published as part of the documents which accompany the accounts. We have stated in our memorandum to the Royal Commission that if it were decided to give some measure of taxation relief to businesses in respect of the financial effects of rises in prices, the method we would favour for doing so would be to give relief on retained profits.

As I have said, the defects in the alternative proposals so far examined are serious and we should not minimize them. At the same time they should not deter us from further study of the problem. The International Congress in June will give us the opportunity of hearing the results of experience and research in the various countries from which delegates are coming to the Congress from overseas and after it is over the Council proposes to invite other professional bodies to join with it in such a further study.

Accounts

The accounts of the Institute for the year do not call for any detailed comment beyond those set out in paragraphs 111 and 112 of the report.

The total income for the year at £92,925 is approximately £8,000 in excess of the income for the previous year. On the other hand expenditure at £78,443 is approximately £10,000 higher than in 1950. As a result the excess of income over expenditure available for transfer to the accumulated fund is £14,482 as compared with £16,673 in 1950.

The increase in expenditure reflects the continually growing cost of all types of supplies required at the Institute, not the least of which is the cost of printing and stationery.

With the surplus of £14,482 the accumulated fund is now £158,091 or within £5,541 of the figure of £163,632 at which it stood in 1939.

I must warn members, however, that with our heavy commitment in respect of the International Congress on Accounting, a considerable reduction in the surplus for the current year must be anticipated.

The schedule of investments reflects the changes made in the Institute's investments to which reference was made in the President's address last year and to which reference is also made in the annual report.

An inquiry has been received as to the make-up of the substantial figure for creditors which is a feature of the balance sheet each year. You may therefore like to know that this item is necessarily large because it includes the cost of the list of members which is printed at the end of the year for distribution early in the following year and it also includes the expenses for the November examinations. These two items alone account for some £17,000 of the total of £28,614 shown in the balance sheet.

Conclusion

I cannot conclude this address without saying a word of thanks to the officials and staff at the Institute. The annual report is ample evidence of the strenuous and exacting duties they have performed during the year and I would express to them on your behalf, as well as on my own, our grateful thanks for their devotion to the interests of the Institute.

To Mr MacIver, who has accompanied me on my visits to the district societies and who has been a tower of strength to me during my year of office, I would extend my warmest thanks for all he has done and for the many kindnesses I have received at his hands. I would wish also to thank Mr Loveday and Mr Wilkinson and all the other members of the staff for the ready help which they always give so ungrudgingly.

Ladies and Gentlemen, it has been a great honour to serve as your President and when I relinquish my office next month, I shall still cherish many pleasant and lasting memories. The past year has been a

strenuous one but I have been fortified by the co-operation, advice and many kindnesses I have received from the Vice-President, Past Presidents and all the other members of the Council. To them I would express my heartfelt gratitude for all they have done to make the life of a President bearable.

The welcome extended to me by the Presidents, officers and members of the district societies has been quite overwhelming and I would like them to know how grateful I am and how much I enjoyed the opportunity of meeting our members in all parts of the country. It is a gratifying experience to find that our members are very proud of their Institute and are very jealous in safeguarding the wonderful tradition of integrity and service to the public which has been built up by their predecessors during the seventy-two years which have passed since the original Royal Charter was granted.

I now beg to move the adoption of the report of the Council and the accounts for the year ended December 31st, 1951, and I will ask Mr T. B. Robson, the Vice-President, to second the proposition, after which the meeting will be open for discussion.

DISCUSSION

Mr T. B. Robson, M.B.E., M.A., F.C.A. (Vice-President): Mr President, ladies and gentlemen, I beg to second the resolution.

The President: Well, ladies and gentlemen, the resolution has been proposed and seconded. Are there any questions? (A pause.) If not, I will put the resolution to the meeting. Those in favour? Against? I think I can say that is carried unanimously. (Applause.)

The next item on the agenda is to confirm the appointment of one member of the Council to fill a vacancy arising since the last annual meeting – that is, the confirmation of the appointment of Mr Winter. I propose that Mr Winter's appointment as a member of the Council be confirmed, and I will ask Mr Robson to second that.

Mr Robson: I beg to second that.

The President: Those in favour? Against? I think that is carried.

I will ask Mr Matthews to propose the next resolution.

Mr R. P. Matthews, B.COM., F.C.A.: Mr President, ladies and gentlemen, I beg to propose that the following members of the Council, who are due to retire under bye-law 5, be re-elected:

Mr Percy Frederick Carpenter.
Mr Donald Victor House.
Sir Harold Gibson Howitt.
Mr Percy Montague Rees.
Mr Lawrence William Robson.
Mr George Forrest Saunders.
Mr Gilbert David Shepherd.
Sir Nicholas Edwin Waterhouse.
Mr Robert Pearson Winter.

Ladies and gentlemen, in moving that resolution I would just like to add this. I am one of those members – no doubt few in number – who does not always have time to read the whole of the annual report from beginning to end between the date of receiving it and the date of the annual general meeting, but a visit to the Midlands yesterday gave me the opportunity for more reading and I did study this report in greater detail than I usually have the opportunity of doing. You said, sir, in your address, that the report indicated somewhat the volume of work that had been carried out during the year by members of the staff of the Institute. I agree that it does, but I feel also that it indicates afresh the tremendous amount of work carried out by members of the Council on behalf of all members of this Institute, and I would like to say that the volume of work carried on by these gentlemen, and others who do not come up for re-election this year, is not unappreciated by the members. I have, therefore, very much pleasure in moving the re-election of the gentlemen whose names I have read out. (Applause.)

Mr D. A. Clarke, LL.B., F.C.A.: Mr President, ladies and gentlemen, I would like to second that resolution and be associated with all the other members in the expression of thanks and appreciation of the work of the Council.

The President: You have heard the resolution proposed by Mr Matthews and seconded by Mr Clark. I put it to the meeting. Those in favour? To the contrary? Carried unanimously.

The next resolution refers to the appointment of auditors, and before asking Mr Hunt to propose this resolution, I would just like to say that we are very sorry indeed that one of our auditors, Mr John Myers, is unable to be present with us this afternoon. He seldom, if ever, misses an annual meeting, but unfortunately he has recently undergone a rather serious operation and is now convalescing. I am glad to say he is making steady progress towards recovery. I thought I would like to mention that we miss Mr Myers from our meeting this afternoon. I will now ask Mr Hunt to move this resolution.

Mr J. A. S. Hunt, A.C.A.: Mr President, ladies and gentlemen, I would like to propose that our auditors, Mr Geoffrey Bostock, F.C.A., and Mr John Myers, F.C.A., be reappointed as auditors for the ensuing year at a remuneration of 250 guineas each.

The President: Will Mr Michell second that?

Mr D. A. Michell, A.C.A.: I beg to second that resolution.

The President: You have heard the resolution, ladies and gentlemen. All those in favour? On the contrary? That is carried unanimously.

You have with the annual report a sheet showing notices of motions which have been received from members, the first of which is in the name of Mr H. A. Kinney. I will now ask Mr Kinney to propose his motion.

Mr H. A. Kinney, F.C.A.: Mr President, ladies and gentlemen, I desire to be as brief as possible in proposing the resolution which stands in my name, but would like to explain the circumstances which have caused me to put it down for discussion.

I am one of five partners practising in the City and at Brighton and personally divide my time between the two offices. At Brighton I have always taken the greatest interest, sir, in the South Eastern Society of Chartered Accountants and in fact at present serve on their committee and had the honour at one time of acting as their honorary secretary. I therefore feel that I have some claim to say that I have personal knowledge of the problems of the provinces as well as those of the City, and they are widely divergent.

The substance of the resolution which I have brought forward has already been before the annual joint meetings with the district societies and I cannot help but feel that at these discussions the problem has not really been given the consideration which it merits, probably because of the more immediate urgency of other matters.

All of you will, I am sure, agree with me when I say that before any member of our staff becomes of real value they have to have been through a very long period of training and also have had to acquire considerable knowledge. It will meet with mutual agreement that, having regard to the standard of knowledge required, the rate of pay which we can offer to our senior staff is inadequate (hear, hear) and, in fact, I have often wondered why we continue to retain such staff. Probably this is because they place great value upon the freedom and responsibility which their particular calling brings to them, but it must be freely admitted that it is not uncommon for a large percentage of the better brains to leave professional life between the ages of 30 and 40, partly because of the wider prospects which the business world can offer, and partly, I think, because they have begun to consider the necessity for providing for their old age.

Many firms already have in existence pension schemes and this is the case with my own firm, but generally speaking, where these pension schemes are deficient in my

opinion, are twofold – they usually require that the whole staff should be included and inevitably if the employee leaves the firm he loses his pension rights.

The inclusion of the whole staff is in my view a waste of money on all sides, particularly in the case of younger girls who almost invariably leave to be married. As to the loss of pension rights on change of firm, I hold absolutely no brief for that selfish outlook which looks on this as a means of holding staff who would otherwise like to have opportunities of improving their conditions within the profession.

It would not surprise me to find that over half of the 6,400 members in practice were members with small firms practising in the provinces, nobly upholding the traditions of the Institute, at the same time fighting, with one hand tied behind their back, the unscrupulous and completely unprofessional antics of the unqualified accountant, coupled with the hopeless ignorance of the small business man who hardly knows the difference between a turf accountant and a chartered accountant (laughter), and whose only yardstick of value is the smallness of the fee. These, sir, are the members who particularly need any help which the Institute can give to enable them to obtain and retain a competent staff.

This question of pensions has been considered many times and you, Mr President, will no doubt appreciate that I have deliberately worded my resolution so as to bring the consideration of the problem into somewhat defined lines – that is, the formation of a trust fund under the auspices of the Institute.

The problem, sir, is not insoluble; it has, in fact, been solved many years ago by Lloyds and I believe more recently by the legal profession. Surely we, who like to consider ourselves as the leaders of financial professional thought, can also find a solution.

In conclusion, I personally was rather interested to ascertain the amount of support which such a resolution would obtain. Any resolution such as this at the annual general meeting requires the support of at least ten members. This, of course, presents no difficulty at all but, deliberately, I selected five names at random from out of the year book and from these five have come four of my necessary supporters. These are widely spread over the country and had never even heard of me before I wrote to them.

If, sir, this represents a true guide to the proportion of members who feel that action should be taken, then undoubtedly this meeting will almost unanimously request that a special sub-committee should be set up forthwith, and would it be too much to hope that a scheme could be operative before the close of 1952?

I now, sir, formally move:

> 'That the Council of the Institute be requested to set up a sub-committee for the following purposes:
>
> (a) To investigate the possibility of setting up a pension trust fund for the purposes of creating a contributory pension scheme covering all employees of those holding a practising certificate from The Institute of Chartered Accountants.
>
> (b) To advise on the best methods whereby such a trust fund can become actuarially sound in the shortest possible period.'

THE PRESIDENT: Thank you, Mr Kinney. Have you a seconder?

Mr KINNEY: I have not personally arranged for any seconder in this matter.

THE PRESIDENT: Would anyone second Mr Kinney's proposal?

Mr C. J. G. HUGHES, LL.B., F.C.A.: Sir, I second it with great pleasure.

THE PRESIDENT: Does anyone wish to speak on this? (A pause.) Well, Mr Kinney and Mr Hughes, I think I can say this – that the Council is not unsympathetic to your proposal. This matter has been under consideration for a good long time; in fact, it goes back to about 1938, or perhaps even before then, when the question of a pension scheme was under consideration, and at that time details of a pension scheme run by one of the leading assurance societies was issued to all our practising members, but on inquiries being made I think so far as we could find out there were not more than forty firms who took it up. Since the war, the subject of a scheme to be sponsored by the Institute has been raised three times at the annual meetings of the representatives of the district societies and of the Council, but the support given to the subject at those meetings was very limited. Various conclusions were reached; it was felt that the expense for some firms was quite prohibitive – it might be in the case of staff who were getting on in years – and it did not seem that any scheme sponsored by the Institute could really hope to compete with the benefits which are offered by industry, but nevertheless the Council are quite willing to go into this matter afresh, and if it is the wish of this meeting, arrangements will be made for a sub-committee to be appointed to consider the matter *de novo*. I would like to point out, however, if Mr Kinney does not object to this, that possibly it might be an advantage to defer the appointment of a sub-committee for the purpose until we get the report of the Tucker Committee on the taxation treatment of provisions for retirement, as it is possible that that report might have a considerable bearing on this matter, but I think you can take it that this will be brought forward in the appropriate quarter by the Council, and so far as we are concerned we shall have no objection to a sub-committee being appointed. I do not know whether any of my colleagues on the Council would like to say a word about this or not?

Of course, Mr Robson reminds me that if we do have a sub-committee it does not necessarily follow that any result that is produced will be a constructive one – we can only try. I would just like to get the views of the meeting on this. A definite proposal has been put forward and seconded. Those in favour of the appointment of a sub-committee to consider the problem raised by Mr Kinney please show in the usual way. Any to the contrary – in other words, that we do not do anything? I think the sense of the meeting is that we try to do something.

The next notice of motion is one received from Mr MacDonald, who has, I think, three separate resolutions to put forward.

Mr N. H. MACDONALD, A.C.A.: Mr President, ladies and gentlemen, just in case anyone has not read it in detail recently, I will just read the first motion. It is:

> 'That the members view with concern the ineffective steps which have been taken up to date to achieve a proper status for qualified accountants. That further action should be taken promptly, with a view to an effective conclusion.'

Generally speaking, this motion appears to be of more interest to provincial and country members than to those in London, but it does seem obvious to all that steps should be taken quickly to protect the general public from all who would, if so permitted, set themselves out as accountants of high degree, whereas, to express it gently, they have behind them no such examinations as those of our Institute.

It is true that in order to be able to 'close the door', we will have to include amongst those we are happy to accept some who have had very much less training than we would wish. Untrained men, however, like trained men, do not live for ever and their practising life is even shorter. If the 'door' be kept tightly closed against the entry of untrained men, the average quality of those in practice will soon improve greatly, and of untrained there will eventually be none. Although 'time' is probably the biggest eliminating factor, there will be some of the untrained who will find in practice difficulties with which they cannot cope and in the end they will give up the struggle. It is now my duty to close with a hope that sound progress in the 'closing of the door' will be taken as quickly as possible.

THE PRESIDENT: You are putting this resolution now, Mr MacDonald, are you?

Mr MACDONALD: Yes – I beg formally to move the resolution.

THE PRESIDENT: Is there a seconder for this?

Mr A. N. D. SMITH, F.C.A.: I second it.

Mr Robson: Mr President, ladies and gentlemen, I do not know whether the mover and seconder of this resolution realize that the terms in which the resolution is phrased are in effect a resolution of dissatisfaction with the efforts of the Council that have been made on your behalf over many years. Sir Harold Howitt unfortunately cannot be here today to talk about this subject; you have heard him speak on the subject of co-ordination, which is the subject which is really dealt with by the resolution; you have heard him speak on it many, many times from the very beginning of these efforts to co-ordinate the profession. Now I think it was about nine years ago I joined in the strenuous efforts which were made to find means of achieving just what the mover and seconder of this proposal would like to achieve, and what I am sure all members of the Institute would like to achieve, and to be quite blunt about it, we have failed. Let me remind you of what the President said in the annual speech from this chair last year. In paragraph 92 of this year's report you will find a summary of his remarks. He there dealt with the fate of the draft Bills which had been drawn up with the object of co-ordinating the accountancy profession, and he explained that those Bills, or the efforts to get them into a satisfactory form – a form which would be satisfactory not only to our own members but also to those members representing the public in Parliament – had failed because of the impracticability of arriving at a satisfactory definition of the word 'accountancy' and he went on to report to you that the Council had advised the Co-ordinating Committee that no useful purpose would, in its opinion, be served by continuing negotiations for co-ordination of the profession on the lines of the draft Bills which had been under consideration. He said that the Co-ordinating Committee was continuing in being and that our Council had suggested that the committee should, as a first step, explore the possibility of obtaining an amendment of Section 161 of the Companies Act, 1948, so as to extend the application of that section to all companies, and, in addition, to strengthen the requirements of the Act in respect of the qualifications of persons for appointment as auditors. Well, from that stage at which it was left by the President last year, we have moved forward. The Co-ordinating Committee has considered the suggestions of our Council and it has now decided, as he said in this paragraph of our report, to recommend to the Board of Trade that these proposals be implemented. The next stage will be for the Board of Trade to decide, but we have not been idle within the limits imposed by the impracticability of defining 'accounting'. We all realized when we were trying to draft the Bill that we must bring in on the ground floor quite a number of people even though they had not the qualifications of members of the recognized professional bodies. Everyone must recognize that at the inception of the scheme some step of that kind would have to be taken, but if we can get a proper scheme the whole problem would be solved by the death of the unqualified people and the failure to replace them by any but qualified people. The plain fact of the matter is that you could not close the shop; you could bring in all who are practising accountancy today, but you must realize that if you were to define accounting in such a way as to give protection to our members, you would have to include all kinds of activities engaged in perfectly legitimately, not only by people calling themselves accountant, but also banks, solicitors, estate agents and other persons who for many years have been doing those jobs and in some cases doing the jobs well. It is one thing to know what you want to achieve, and another thing to get an Act of Parliament in terms which will make it a penal offence for someone to carry on one of the aspects of the profession which you wish to protect. Therefore, Mr President, I oppose the resolution which has been put before the meeting today.

Mr W. A. J. Smith, F.C.A.: Mr President, I would like to say that I do not know the proposer of this resolution, and I do not wish my remarks to be construed as in any way critical of the members of the Council, past or present. I have for some time considered the position of unqualified accountants. Particularly in the suburbs, where I happen to practice, we have to deal with the smaller type of company and the smaller type of taxpayer, some of whom do not know the difference between hay and a bull's foot. It has been my experience that unqualified accountants, some of whom have no knowledge of double-entry book-keeping, keep a person's accounts and often make a mess of things which eventually a qualified accountant has to put straight. I will give you an example of a particular job I had to take over. It concerns a professional man, and a professional man held in high esteem in his particular profession. For some years he had had the services of an unqualified accountant, and the storm was just breaking because his accounts had been suspect for a number of years by the Revenue. Fortunately or unfortunately, his accountant died and I came on the scene. I had to delve into them and I found that all was not well. When I told him he said: 'You say that this old boy did not know what he was doing, but what you are telling me now is that I have a lot more tax to pay.' I replied 'Exactly', but to this day I have not convinced him that the old boy was wrong, and I feel that with the unlimited scope of unqualified accountants these things tend to happen, and I think they tend to bring the Institute into a slight atmosphere of disrespect amongst a certain class of taxpayer. You may say that they are irresponsible taxpayers, but they are there.

The other point I would like to comment on was touched on by Mr Kinney, I believe, and that is the general public do not know the difference between one firm of accountants and another. I do agree that in some quarters there is still a lot of magic in the designation 'chartered accountant'. I have heard a member of the London Stock Exchange refer to an accountant with some sort of qualification as a 'fully qualified chartered accountant'. I do not know whether it is possible to bring to the notice of the general public exactly what a chartered accountant is. Thank you, Mr President. (Applause.)

The President: Does any other member wish to speak?

Mr L. H. Wrigley, F.C.A.: I would like to speak against the motion and deal with two points that have been raised. I think the unqualified accountant can be a blessing in disguise, for when the mess comes to be cleared up, we have to clear it up. I think a far greater danger, and one I look at with horror, is when I walk into my bank and see a notice 'Trust accounts dealt with' and also income-tax. That is my first point.

My second point, which unfortunately Mr Robson did not deal with, is the question of inelasticity. The Accountants' Bill and, in fact, all similar Bills which I have seen, makes for inelasticity and standardization. In this age of standardization downwards, which I think we ought to fight our hardest, I should not like to see any more inelasticity introduced by a motion such as this.

The President: Does any other member wish to speak?

Mr E. Barlow, F.C.A.: Mr President, ladies and gentlemen, I would like to support the resolution. Speaking as a country practitioner, it is very evident, in dealing with the smaller type of client, they have absolutely no clear conception of the relative merits of a chartered accountant or any other accountant, and the point with regard to the exclusion of unqualified accountants from acting as auditors to companies is virtually valueless to the vast majority of country practitioners. I have a reasonably sized practice not more than forty miles from London, and of my gross annual product, not more than one-tenth represents company work. Nevertheless, it is a flourishing practice. My experience, when a qualified clerk before the war, and from contact with certain relations who are chartered accountants practising in the West Country, is that competition from the unqualified man makes it extremely difficult for the qualified accountant to give that service which he should give and also pay a decent salary to his staff, and, as a consequence, employ staff with adequate capabilities and education.

The President: Does any other member wish to speak?

Mr E. B. D. Bavin, F.C.A.: Mr President, ladies and

gentlemen, I would like to speak against this motion. As the motion is worded it seems to me that it is almost a vote of censure on the Council. There is not the slightest doubt that the Council has done an enormous lot of work in connexion with this very difficult question, and if members of the Institute carry this motion today it is, to say the least of it, base ingratitude. It seems to me that the matter has been investigated by the Council; the Council have religiously reported to members each year on what has been done. I think the motion should be turned into an amendment, which I would like to move, to the effect that the members view with approbation the effective steps which the Council have taken to investigate this matter and are grateful to the Council for those steps. (Applause.)

Mr H. GARTON ASH, O.B.E., M.C., F.C.A.: Mr President, the point was made that the public generally cannot differentiate between chartered accountants and others, but I think if this motion were to be carried and we were to have any levelling of the profession as a whole, we should be doing a disservice to ourselves, because the whole of the accountancy profession would become one body and all would be eligible to call themselves accountants. We should lose the benefit we have today of being known as 'chartered accountants' and I think on those grounds the motion should be defeated.

Mr B. A. PENNOCK, A.C.A.: Mr President, ladies and gentlemen, I wish to refer to the remarks of the last speaker. He said that if there were unification of the accountancy profession it would necessarily mean that the different interests and the various bodies would lose their identity. I would just like to point out that I do not see why that should follow at all. You have different qualifications for doctors and so forth and yet not everybody can set himself up as a doctor.

Mr B. H. BINDER, F.C.A.: Mr President, reading again this resolution and thinking over the explanation given by the Vice-President, I was wondering whether the mover and seconder of the resolution might consider that the resolution was drawn up before realizing what had been done, because the Vice-President has explained that a great deal has been done to further the object referred to in the resolution, and if it has not met with concrete results so far, at all events it has indicated that the Council has given a great deal of attention to the matter. Mr Robson explained how, owing to the difficulty in getting through certain Bills, further recommendations had been made to the Board of Trade, which, although they do not cover fully the grievances that we are suffering from, nevertheless, it is a step towards achieving what we all desire. Moreover, at the meetings of the district societies representatives which are held periodically, this question is discussed very, very fully indeed, and I would like to assure the proposer and seconder of this resolution that it is ever present in the minds of the Council, and if, instead of proposing and putting forward this resolution, they will make some concrete useful suggestions to the Council to carry out what we all desire, then I am sure they will receive the consideration that is required. (Applause.)

Mr A. N. D. SMITH: There was no offence intended by the proposer or myself. It may be due to ignorance on our part as to what has been done, but we have to do something more. What we would really like is to get it done quickly.

A MEMBER: May I move that the matter be now put; that will certainly speed matters up?

THE PRESIDENT: An amendment was proposed; I do not think it has been seconded.

Mr WRIGLEY: I was just about to do so, sir.

THE PRESIDENT: Do you want to go on with your resolution, Mr MacDonald?

Mr MACDONALD: Will you give me leave to speak again?

THE PRESIDENT: Yes.

Mr MACDONALD: This resolution seems to have been taken not quite in the spirit in which it was intended. Perhaps it may be my wording. It is not intended that the general work of the Council should be criticized. As a member, I am extremely grateful for their expert knowledge and the time they have devoted to their tasks; I want it to be understood that that is entirely appreciated, but I would say it appears to practising members in the provinces and those in country districts that it is a great pity that sufficient effective action has not been taken before now. I feel that younger members starting up in practice now in country or provincial districts, where they are competing with these others accountants, are not having a reasonable break at all. The question of companies may be all very well in London, but it has very little effect in some provincial and nearly all country districts. Your members in the country are trying to maintain proper standards, and on this point it was mentioned that possibly Sir Harold Howitt might be able to answer the motion, but in his absence we had a good address from Mr Robson. Sir Harold Howitt recently stated in an address as follows: 'We must, however, be careful that we do not drift into the position that good accounting is that which the tax authorities accept; the reverse should be maintained as the rule, namely, that the tax authorities are prepared to accept accounts prepared on accepted accounting principles. We must not get the cart before the horse.'

You must excuse me quoting that, but it is more or less what many qualified members in the country are trying to do, and when they see the absolute travesty of accounts which are put to the Inspector of Taxes and accepted, it is rather creating a difficult position for them. There is one great stumbling block to the progress which is being made at the moment as regards the definition of accountancy. It seems to me that there is something in the preparation of final accounts for presentation to public bodies. That, Mr President, is the way in which the motion is put to try and maintain chartered accountants' standards. I have a number of letters on the subject from other people in country districts confirming my views – from people who are unable to be here today – and I would like you to accept the motion on these grounds.

Mr ROBSON: Mr President, I hope I may be forgiven for speaking again, but I want to say at once that I accept unreservedly the statements by the proposer and seconder that this resolution was not intended as a motion of censure on the Council. I accept that. I would like to say, secondly, that we on the Council are very conscious indeed of the difficulties in which younger members in the rural areas are placed in the face of competition which is unfair. We are very conscious of it, and that, indeed, is why many of us have spent strenuous days, and in some cases nights, in the last nine years in trying to get some kind of a Bill put forward which would meet the situation. We have failed; there is no question about it; we must acknowledge it; but I can assure you, I feel certain, on behalf of the Council, that we are not going to sleep on the matter, and if we see any means of carrying through a scheme which will achieve what we all want, we will do our best to put it forward. I do urge you, however, not to pass this resolution in the form in which it is put forward. I have accepted the statement that it is not a vote of censure on the Council, but if you pass it today it will go out to the Press in the way it is written and it cannot be construed in any other way than as a vote of censure on the Council. I do urge you, therefore, not to pass this resolution today.

THE PRESIDENT: Ladies and gentlemen, there was an amendment proposed and seconded. Would you repeat it?

Mr MACDONALD: May I speak again?

THE PRESIDENT: No.

Mr MACDONALD: It is only to this effect, sir. Would the Council be prepared – if the motion is withdrawn from the meeting in the hope that action on these lines – that any suggestions from any members of the Institute who are willing to do so, or able to do so, can be brought into effect reasonably soon to assist members in the provinces.

THE PRESIDENT: Mr MacDonald, that is always present in the minds of the Council. You can take it from me that if there is any possibility of doing anything it will be done. We have not been working for the last – I do not know how

many years – for fun; it has been with the object of trying to get something together, and as Mr Robson has said, up to the moment we have failed to get a concrete bill. It is not altogether our fault – there are other people to be considered besides ourselves, you know. I think you are prepared to withdraw the motion?

Mr MacDonald: Yes, sir.

The President: Does Mr Smith also agree to its withdrawal?

Mr Smith: Yes, sir.

The President: There is unqualified withdrawal of the motion. Your next motion, Mr MacDonald, is on the question of fees, I think.

Mr MacDonald: Mr President, ladies and gentlemen, my second motion concerns fees. It is:

> 'That the members view with concern the fact that the Institute can give no practical guidance on the question of fees which are to be charged by members. That steps should be taken to make such information or assistance available.'

Recently I had occasion to request such information in respect of rather an unusual investigation, and I was advised that 'it has never been the policy of the Council to give official advice on fees'. May I understand that the Institute will now give consideration to this matter.

The President: Is there a seconder to this?

Mr A. N. D. Smith: Yes, and I do so without any feeling of criticism at all. (Laughter.)

Sir Russell Kettle: Mr President, ladies and gentlemen, Lord Simon, when he was a famous member of the Bar, once defined a profession at a dinner given by the London Students' Society. I am not going to quote the whole of his definition; I only want to quote his concluding sentence which reads like this: 'Thirdly and most important of all, a profession is a pursuit which is followed not solely as a livelihood but always subject to overriding duties, prescribed by a code of professional honour involving in an especial degree the strict observance of confidences, in which the work that we do must be rendered to our clients without stint, in proportion to our clients' need, rather than in proportion to the reward which we receive.' I do not want you to misunderstand me. I am not suggesting that we could or should be so altruistic, but I am suggesting to you that underlying that statement of Lord Simon is a great truth, and that is that in a profession the reward depends upon the professional ability of the accountant to satisfy his client in the work which he does and the judgment which he exercises in performing it. So far as I know, as the proposer has said, the Institute has never committed itself to laying down any rules or regulations or advice concerning standard fees or minimum fees, and I think it is quite right, because in the long run the question of the fees which your client is going to pay is a matter of bargaining and settlement with the client himself. I expect we have all got clients who do not recognize the change in the value of money (laughter) and who will not pay us adequate fees, but I do not think any pronouncement by the Institute such as is envisaged in this resolution stating a minimum fee would lead to any different position, because the whole tendency, as you know from legislation in the past ten years, when you fix a minimum fee it automatically becomes the maximum, and you may find fees which you regarded as very satisfactory before are not so satisfactory in the future. This is a point which should be borne in mind in regard to the difficulty of trying to fix a maximum or minimum or standard fee. Circumstances vary so much – the staff one employs, the ability to utilize particular staff on a particular job. We all know of those occasions when we have a certain job and we put a more expensive man on it because another is not available. Then there is the question of the salaries which you pay, which frequently differ very greatly. Then there is the question of the district in which the business is carried on, whether it is a large town, or a small town, or a country district, the extent of the overheads, and what is regarded as a reasonable profit. All these things contribute to make it, in my opinion, quite impossible to carry out the suggestions of the proposer of this resolution. Lastly, I would mention this: business men have a habit of considering their expenditure, and today there is competition, in my opinion unfair competition, from unqualified people, and if you are going to fix a minimum fee it may tell against you very much. I therefore hope that this meeting will not support the resolution because, in my opinion, it is directly against the interests of members as a body to do so. (Applause.)

Mr H. J. Redfern, F.C.A.: Mr President, ladies and gentlemen, I believe I am correct in saying that the Institute have, in fact, an agreed scale of rates with Her Majesty's Treasury in connexion with work done for Government departments. The motion here says: 'Members view with concern the fact that the Institute can give no practical guidance on the question of fees.' Can we take it that the agreement with H.M. Treasury is some practical guidance on the subject of fees?

The President: I do not think you can take that as a general statement. The present scale of fees was adopted about 1947 and it only applies to certain work for Government departments – it does not apply to all work for Government departments undertaken by accountants. At the moment there is a strong feeling that the scale is inadequate (hear, hear), and at the moment a committee is at work with a view to an approach to the Treasury for some amendment of it. I cannot tell you any more than that a committee is at work on that particular point, taking evidence and so on, so they can submit to the Treasury a case for amendment of the scale.

Does any other member wish to speak?

Mr C. H. Appleby, F.C.A., referred to the out-of-date scale of fees applied by the Courts and other statutory bodies, and suggested that these, too, might be brought more in keeping with present day charges.

The President: Anybody else wish to speak?

Mr B. J. Davis, F.C.A.: I would like to support what has been said against this motion. I think it would be against the interests of the profession if the Council were asked to fix a scale of fees. It must surely be evident to every member that he himself has no fixed scale of fees; every practising member has to get what he can from most of his clients. (Laughter.) Most of us are fortunate enough to have one or two clients whom we do not have to restrain on. (Laughter.) I think, too, it would be most unfair to suggest that every chartered accountant is of the same value; I know that I am not nearly so good as some chartered accountants, but I flatter myself that I am a little better than some others. (Laughter.) I think if this motion were passed you would then be faced with the difficulty of trying to fix a scale of salaries for chartered accountants who are employed by firms of chartered accountants, and when you had done that you would have to fix one for chartered accountants in commerce, and every time a chartered accountant went to get a commercial job he would present this scale of fees to his prospective employer. I think then you would find that a great many members would come to the next annual meeting and ask you to rescind your scale of fees. (Laughter and applause.)

The President: Does any other member wish to speak? If not, I will put it to the meeting. Those in favour? To the contrary? The resolution is lost.

The last of the three motions in the name of Mr MacDonald. Will you propose that, Mr MacDonald?

Mr MacDonald: Mr President, ladies and gentlemen, my third motion is as follows:

> 'That arrangements should be made for chartered accountants practising in Scotland to have articled clerks, restricted to two for each chartered accountant, in a similar way to the Scottish chartered accountants who practise in England.'

In this motion I am bringing to your notice a position which seems to be unfair to those members who practise in Scotland. The English Institute does not allow members who practise in Scotland to take articled clerks. One of the main reasons appears to be that of supervision.

I shall record briefly the conditions for the other qualify-

ing bodies. The Institute of Chartered Accountants in Scotland, the Society of Incorporated Accountants and Auditors, and the Association of Certified and Corporate Accountants all permit their practising members to retain articled clerks at any reasonable place in the world.

In view of co-ordination and recognition by the Board of Trade, I think we are likely to work more closely with these three qualifying bodies in the future. I trust that the Council will place such a trust in the few members who practise in Scotland to enable them to train articled clerks.

THE PRESIDENT: Is there a seconder?

Mr A. N. D. SMITH, F.C.A.: I second.

Mr D. V. HOUSE, F.C.A.: Mr President, ladies and gentlemen, when I first read this resolution I was somewhat doubtful as to its exact meaning, and I cannot say that I have been fully enlightened, but there is one thing about it on which I am perfectly clear – if one wants to annoy the Scottish then one should vote in favour of this resolution and annoy all Scotsmen. (Laughter.)

Mr MacDonald referred to members not being allowed to serve their articles in, may I say, other countries, because of the lack of supervision, but it is hardly to do with that. Our articled clerks cannot, in fact, under the Charter serve their articles other than in England or Wales, and it would need an alteration of the Charter to bring that in. It may be right that we should allow articles to be served in Scotland, but would you not then have to extend it all over the world, and we might have to allow articles to be served even behind curtains, whether iron or otherwise. I still feel that English training has quite a lot to be said for it, and I think to extend the facilities for articled clerks to serve in any place in the world would in the long run and at this moment damage the prestige of our profession and of our Institute, which is of England and Wales.

THE PRESIDENT: Is there any other speaker? Time is getting on so I will put this motion to the meeting. Those in favour of the resolution? Against? The resolution is lost.

Mr H. A. ASTBURY, F.C.A.: Mr President, before there is any further exodus from here, I wish to move a resolution, sir, on behalf, may I say, of all members of the profession thanking you for all the work you have done during the past year. (Hear, hear.) Mr Matthews has already referred to the tremendous amount of work done by the Council, but I think we all have imagination and I am sure we all realize the large number of matters dealt with which are not mentioned in this report. We also understand that all the work of the Institute has to have your personal attention – you have to be *au fait* with everything that is going on.

The other thing I would like to say is that you have mentioned that you have enjoyed visiting the students societies. I would like to say that this involves a tremendous amount of time on your part, travelling over-night and so on, and must inevitably be a great strain on yourself, and we are very happy to see you here today presiding over this meeting looking so fit and well. (Applause.) I would like to say we thank you for presiding over this meeting so graciously and allowing every member the chance of putting his point of view.

The motion was carried with acclamation.

THE PRESIDENT: Mr Astbury and gentlemen, I am not going to detain you any more – I have talked quite enough this afternoon – but I do thank you most sincerely for all the kind things you said just now. It has been a great pleasure to me to go around the country. You mentioned students societies. I am afraid I am rather a back-slider so far as the students societies are concerned. I have been to the district societies but time has not permitted, or does not permit, the President or Vice-President tackling both. Some of the Past Presidents here – and I suppose in a month's time I shall also be a Past President – try to take up a little of the slack afterwards by going to the students societies. I thank you very much indeed.

Gentlemen, that concludes the business of this meeting. I hope that as many of you as possible will stay behind for a few minutes for the meeting of the Chartered Accountants' Benevolent Association and support Mr George Freeman.

CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

The sixty-sixth annual general meeting of the Chartered Accountants' Benevolent Association was then held.

Mr George R. Freeman, F.C.A. (the President) occupied the chair.

Mr C. H. S. Loveday, A.C.A. (Hon. Assistant Secretary) read the notice convening the meeting.

THE PRESIDENT said: Gentlemen, I take it that we need not worry about the auditors' report. We will have it read if you wish, but it is printed in the accounts and it will shorten the proceedings if we do not have it read. (Agreed.) Thank you.

PRESIDENT'S ADDRESS

My first duty is to apologize to a number of gentlemen who have been supporters of this association for some time. They are vice-presidents. On this occasion we have printed on page 3 of the report what purports to be a list of the vice-presidents. The qualification for a vice-president, as you know, is the contribution of 50 guineas or more to the funds of the Association. On this occasion, unfortunately, in our endeavour to show a little bit more of a report, we have made a mistake in omitting some names. On looking through the list myself after the Board of Governors had passed the first proofs, it occurred to me that there was one name which ought to be included there, so I saw the Assistant Secretary and we went into it and we found that unfortunately there were eight names which had been omitted from that list. Their names are – I think it is only right to give them now as the others are in print:

Mr F. H. Parrott	Mr P. W. Thompson
Mr J. H. Senior	Mr F. W. Palmer
Mr F. L. Webb	Mr H. R. Graves
Mr A. R. Leivers	Mr S. R. Cooper

I want to apologize to those eight gentlemen for their names not being in that printed list of vice-presidents. We will see that they are in the list next year.

The report of the Governors shows that there has been an increase in membership of 244 during the year. That compares with a figure of 819 increase in the list of members of the Institute, and whilst it is a little bit more than the proportion of about one in five members of the Institute who are members of this Association it is not too satisfactory, although, of course, one can only expect that the man who has to pay his admission fees to the Institute and his subscription to the Institute is often not in a position to put his hand in his pocket for other things. But I do feel, and I am sure everybody who looks at this report will agree, that it is not at all pleasant to find that of the members of the Institute, less than 20 per cent are members of the Association.

You will see on page 6 of the report that we have some wording in heavy type. The deficit is a matter of concern to the Board of Governors, which is of the opinion that unless the revenue is increased there will be a greater deficit in the coming year in view of the applications being received and the continued increase in the cost of living. I do hope that not only those members here who are

members of the Association and do support us, but other members of the Institute will read that and take it to heart and will become members of this Association. There are something like 6,400 members in practice – fellows and associates – but we find that we have only 3,006 members of this Association. That is less than half of the members in practice, let alone those who are not in practice, many of whom, to their credit, are members of the Association and have supported us very well. We do want more money; we want more annual income all the way through.

On the point of annual income, I am glad to say that the investment sub-committee have done a good job of work and they have been able to reinvest our funds. Instead of having long-dated or un-dated Government securities, we have a wider portfolio, which has, and I think will, result in an increase in our investment income, and I hope the Association will benefit. Some of the gilt has already worn off the gingerbread, of course, because since we bought these investments, which you see on pages 10 and 11 of our report, the market has gone rather against us, but I am quite satisfied that if we had not made the changes, the market for long-dated and undated Government securities would have gone still further against us.

There is one figure on page 7 of the report – £50 – which would in the ordinary way have come into our figures and increased our deficit. It is an adjustment of income-tax and without this the deficit for the year would have been £520 instead of £469. This figure of £520 is a more or less stable figure which will be inclined to increase rather than diminish, because the cost of our benefactions is going up all the time.

You will notice in the report that we propose to publish a full list of membership next year. It is going to cost some money but I hope the effect will be, even before we publish it, that more members of the Institute will come along with one guinea, two guineas or five guineas, which will more than cover it and the future of the Association will be better assured.

There is one small matter I would like to refer to – it has already been referred to at the Institute meeting – and that is the fact that our old friend, Mr John Myers, one of the Honorary Auditors of the Association, is not able to be with us today because of his operation. We are very glad to hear that he is recovering and we hope he will soon be back at work again.

With these few remarks I will move the adoption of the report and accounts of the Chartered Accountants' Benevolent Association for the year ended February 29th, 1952. I will ask Sir Russell Kettle to second that.

Sir Russell Kettle: I have much pleasure in seconding.

The President: Are there any questions I have got to reply to? (A pause.) If there are no questions I will put it to the meeting. Those in favour of the adoption of the report and accounts? Those against? That is carried unanimously. Thank you very much.

The only other business is the re-election of the Honorary Auditors. Will Mr Densem be kind enough to propose a resolution.

Mr W. G. Densem: Mr President, ladies and gentlemen, it gives me great pleasure to propose the following resolution: 'That the Honorary Auditors, Mr Geoffrey Bostock and Mr John Myers, be re-elected for the ensuing year, with our thanks to them for their honorary services being recorded.

Mr C. H. Mead: Mr President, I have much pleasure in seconding that proposition, including the recording of our thanks to the Honorary Auditors.

The President: It is moved and seconded that Mr Geoffrey Bostock and Mr John Myers be re-elected with a hearty vote of thanks for their services in the past. Those in favour? Those against? That is carried unanimously.

Thank you very much, gentlemen, that concludes the business of the meeting.

Mr E. J. Davis: Ladies and gentlemen, I have a pleasant duty to perform this afternoon and that is to propose a vote of thanks to our President for presiding. (Hear, hear.) I have the good fortune to sit under Mr Freeman as a member of the Executive Committee, and I can assure you, as I think most of you already know, that Mr Freeman takes a deep interest in this Benevolent Association and the success of this Association during the last few years is due in no small degree to his great interest and the acumen he has brought to bear. We all love him on the Executive Committee; he is a delightful man to work with, and we wish him health and strength long to carry on his good work. (Applause.)

The President: Thank you, Mr Davis and friends. It is a very great pleasure to me to be able still to do something. I am getting on in years all the time, and I hope the time will not come when I may have to come on the Benevolent Association myself. (Laughter and applause.)

The proceedings then terminated.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, May 7th, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, S. H. Gillett, M.C., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, J. S. Mackenzie, K. A. E. Moore, P. Morgan-Jones, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., B. Smallpeice, E. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, T. Walton, Sir Nicholas Waterhouse, K.B.E., Mr R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Readmission

One application for readmission to membership was acceded to.

Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

Exemptions from the Intermediate Examination

Three applications under bye-law 85 (*a*) for exemption from the Intermediate examination were acceded to.

Three applications under bye-law 85 (*b*) for exemption were acceded to.

Reduction in Period of Service under Articles

Three applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

One application under bye-law 63 (*c*) for a reduction in the period of service under articles was acceded to.

Intermediate Examination

One application under bye-law 81 for permission to sit an earlier Intermediate examination was acceded to and one application was not acceded to.

Final Examination

Four applications under bye-law 63 (*e*) for permission to sit an earlier Final examination were acceded to.

One application under bye-law 86 for permission to sit an earlier Final examination was acceded to.

Birmingham Education Department

Mr W. L. Barrows, was nominated to represent the Institute on the College of Commerce Advisory Committee of the City of Birmingham Education Committee.

Professional Classes Aid Council

Mr C. H. S. Loveday, was nominated as the representative of the Council to serve on the Council of the Professional Classes Aid Council for the next three years.

Articled Clerk in Industrial Organization

One application under bye-law 58 (*c*) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Finance Bill, 1952

It was reported to the Council that representatives of the Institute (Mr W. H. Lawson, C.B.E., Mr T. B. Robson, M.B.E., and Mr D. A. Clarke) had had a discussion on April 24th, 1952, with representatives of the Board of Inland Revenue in connexion with a memorandum on the Finance Bill submitted to the Chancellor of the Exchequer on April 18th, 1952.

Accounting in Relation to Changes in the Purchasing Power of Money

The Council authorized the publication and despatch to all members of the Institute of a statement on ACCOUNTING IN RELATION TO CHANGES IN THE PURCHASING POWER OF MONEY as Number XV in the series of recommendations on accounting principles. It is expected that the despatch to members will take place before the end of May 1952.

Publication of Examination Results

The Council decided to publish the following statement:

PUBLICATION OF EXAMINATION RESULTS
MAY 1952
Intermediate and Final Examinations

On the recommendation of the Examination Committee the Council has decided that, subject to unforeseen circumstances, notices will be posted to candidates individually informing them of their pass or failure in the Intermediate and Final examinations held in May 1952 on or about Friday, July 25th, 1952, and that the full list of successful candidates, prize winners and order of merit will be exhibited at the Institute at midday on Tuesday, July 29th, 1952.

Exemption from the Preliminary Examination
English subjects at General Certificate of Education Examinations

The Council decided to publish the following statement:

EXEMPTION FROM THE PRELIMINARY EXAMINATION
English subjects at general certificate of education examinations

The Council has given further consideration to the acceptance of passes in English subjects obtained at general certificate of education examinations and has decided to amend its regulations for exemption from the Preliminary examination.

Under the Council's existing requirements a candidate must have obtained a pass in English Language. The Council has now decided to accept a pass at advanced level in English or in English Literature as an alternative to a pass in English Language.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following fifty-nine associates who have commenced to practise:

Adams, John Alfred; 1950, A.C.A.; (Crane, Christmas & Co), 46 & 47 London Wall, London, EC2.
Allen, Antony William; 1951, A.C.A.; (Gilbert Allen & Co), 8 Drapers' Gardens, Throgmorton Avenue, London, EC2.
Ayre, Gordon Barrowford, M.A.; 1952, A.C.A.; (*Greaves & Co), 1–3 Sandgate, Berwick-on-Tweed, and at Alnwick.
Barber, Philip Petley; 1947, A.C.A.; (Clement Keys & Son), Union Chambers, 63 Temple Row, Birmingham, 2, and at West Bromwich.
Barnes, Desmond Harold; 1947, A.C.A.; (*Harman & Gowen), 7 Queen Street, Norwich, and at East Dereham, Fakenham and Holt.
Bass, Sidney; 1950, A.C.A.; 80 Stag Lane, Edgware, Middlesex.
Blank, Hans Gerd; 1948, A.C.A.; (Jeffreys, Alfred Henry & Marks), 10 Coleman Street, London, EC2.
Bunney, George; 1951, A.C.A.; (Wood, Drew & Co), 65 & 66 Chancery Lane, London, WC2.
Cliffe, Michael Leslie; 1951, A.C.A.; (*Allen, Cliffe & Co), 41 Quebec Street, East Dereham, Norfolk, and at Norwich.
Cohen, Jerrold George, B.A.; 1947, A.C.A.; 1 Shere Avenue, Cheam, Surrey.
Corbridge, Robert Joseph; 1949, A.C.A.; (Merrett, Son & Street), Throgmorton House, 15 Copthall Avenue, London, EC2.
Cotterill, Haydn Jeffery; 1948, A.C.A.; (Cooper-Parry, Hall, Doughty & Co), 102 Friar Gate, Derby, and at Ashbourne, Burton-on-Trent and Uttoxeter.
Donnithorne, Ralph Stuart Arundell, M.A.; 1941, A.C.A.; (Black, Geoghegan & Till), 67 Watling Street, London, EC4, and at Guernsey.
Down, Derek Herbert Ashford; 1952, A.C.A.; (*Down, Son & Harper), 44 Bow Lane, Cheapside, London, EC4.
Downard, James George; 1952, A.C.A.; (Jackson, Downard & Co), 32 Buckingham Palace Road, London, SW1.
Fitter, Raymond John, B.SC.; 1927, A.C.A.; 33 North Row, London, W1, and at Croydon.

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* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Flather, Anthony Victor; 1948, A.C.A.; (Thoseby, Son & Co), District Bank Chambers, Market Street, Bradford.
Fowler, Reginald James Nepean; 1947, A.C.A.; (Edmonds & Co), 11 Hyde Gardens, Eastbourne.
Gamble, Ernest John; 1951, A.C.A.; (*Hays, Akers & Hays), 1 Queen Victoria Street, London, EC4.
Goodwin, Randolph; 1948, A.C.A.; (Cooper-Parry, Hall, Doughty & Co), 102 Friar Gate, Derby, and at Ashbourne, Burton-on-Trent and Uttoxeter.
Gould, Peter James; 1941, A.C.A.; (Joshua Wortley & Sons), 8 Paradise Square (P.O. Box 42), Sheffield, 1.
Gray, Richard Dennis; 1951, A.C.A.; 149 Holme Church Lane, Beverley, Yorks.
Gregg, Arthur; 1952, A.C.A.; (Gregg Brothers & Co), 20 St Ann's Square, Manchester, 2.
Harrison, Harold; 1952, A.C.A.; 14 Prince George Road, London, N16.
Hemsley, Bernard Leslie; 1952, A.C.A.; (Sherrott & Co), 13 Victoria Street, London, SW1, and at Brighton.
Holey, John Walton; 1947, A.C.A.; (Rawlings & Wilkinson), 55 John Street, Sunderland.
Hopkins, George Frank; 1950, A.C.A.; 8 Ferme Park Mansions, Ferme Park Road, Hornsey, London, N8.
Howarth, Samuel Kenneth; 1951, A.C.A.; (*Whitehead & Howarth), Montauban Chambers, St Annes, Lytham St Annes.
Imison, Geoffrey Halton; 1920, A.C.A.; (Harmood Banner, Lewis & Mounsey), 24 North John Street, Liverpool, 2, and at Chester and London.
Ironside, Donald James; 1951, A.C.A.; (Grace, Darbyshire & Todd), 19 Whiteladies' Road, Bristol, 8.
Jameson, Ronald; 1936, A.C.A.; 80A Station Road, Clacton-on-Sea.
Land, William Henry, M.B.E.; 1939, A.C.A.; (Hope, Agar & Co), Pinners' Hall, Austin Friars, London, EC2.
Lees, James Cooper; 1950, A.C.A.; 73 Moor Pool Avenue, Harborne, Birmingham, 17.
Mashford, Kenneth; 1947, A.C.A.; (Carpenter, Box & Co), Liverpool Chambers, 8 Liverpool Gardens, and Goring Hall Chambers, 70 Goring Road, Worthing, and at Lancing.
Mortlock, Percy John; 1951, A.C.A.; (Elliott, Mortlock & Co), 47 Orsett Road, Grays, Essex.
Nash, Norman Charles Russell; 1952, A.C.A.; (Burke, Covington & Nash), 272–4–6 Pentonville Road, Kings Cross, London, N1.
Nurse, Bramwell William Henry; 1948, A.C.A.; (*C. F. Middleton & Co), 73 Basinghall Street, London, EC2.
Oldak, Peter Vladimir Arthur; 1947, A.C.A.; 38 Malvern Court, Onslow Square, London, SW7.
Phillips, Edward Leslie; 1924, A.C.A.; (Beavis, Walker & Co), 53 New Broad Street, London, EC2.
Pickard, Aveling Jocelyn; 1946, A.C.A.; (Oakley, Wederell & Co), Balfour House, 119–125 Finsbury Pavement, London, EC2.
Pilling, Kenneth; 1935, A.C.A.; (Harper, Pilling & Co), 25 Acresfield, Bolton.
Porter, Roland Richard; 1951, A.C.A.; 45 Abbey Place, Torquay.
Poyser, Eric Stanley, M.A.; 1951, A.C.A.; (Poyser & Co), 12A Bottle Lane, Nottingham.
Reid, David; 1952, A.C.A.; (Parton, Reid & Co), Monument Buildings, 11–15 Monument Street, London, EC3.
Rose, Berthold Gottlieb; 1948, A.C.A.; (Howard Smith, Thompson & Co), Bank Chambers, 11 Waterloo Street, Birmingham, 2, and at London.
Sales, William George John; 1950, A.C.A.; (Ford, Bull, Ellis & Reid), Southampton House, 317 High Holborn, London, WC1.
Sassoon, Isaac; 1952, A.C.A.; (Isaac Sassoon & Co), 28 Lawrence Road, Bow, London, E3.
Settle, Albert; 1948, A.C.A.; (55 Cheviot Avenue, Coppice, Oldham.
Simmons, Lawrence Desmond; 1952, A.C.A.; 16 Priory Road, West Hampstead, London, NW6.
Stott, John Philip; 1951, A.C.A.; 31 Westlea Avenue, Watford.
Trill, Leslie Richard; 1949, A.C.A.; (Bird & Potter), 28 Victoria Street, Westminster, London, SW1.
Tuffrey, Ernest Frederick; 1938, A.C.A.; (Hope, Agar & Co), Pinners' Hall, Austin Friars, London, EC2.
Wagstaff, Jack Norman; 1948, A.C.A.; (E. Carpendale Corton & Co), 32 De Montfort Street, Leicester.
Walsh, Stanley Thomas; 1952, A.C.A.; (Dixon & Co), Midland Bank Chambers, North Street, Taunton.
Wareing, Thomas Leslie; 1950, A.C.A.; 68 Sheppard Avenue, Liverpool, 16.
Whipp, Walter Burton; 1950, A.C.A.; 'Grosvenor Mount', Hamilton Road, Whitefield, Manchester.
White, William Alfred; 1951, A.C.A.; (Tubbs, Clarke & Co), 1A Broadway Chambers, 1281 High Road, Whetstone, Middlesex.
Whittley, John Hubert; 1950, A.C.A.; (Josolyne, Miles & Co), 28 King Street, Cheapside, London, EC2, and at Manchester and Paris.
Yates, Cyril; 1952, A.C.A.; (Walton, Watts & Co), Chancery Chambers, 55 Brown Street, Manchester, 2.

(2) That eighteen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That three associates be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

(4) That one applicant be admitted as associate under clause 5 of the supplemental Charter (bye-law 31).

(5) That two applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before May 20th will appear in *The Accountant* of May 24th.

Registration of Articles

The Secretary reported that eighty-two articles of clerkship were registered during the month of April as compared with ninety-two in the previous April.

Resignation

The Secretary reported the resignation of:
Mr Percy Craddock, A.C.A., Harrow.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Albert Claude Adams, A.C.A., Huddersfield.
,, Walter Schofield Akehurst, A.C.A., Christchurch.
,, Robert Dalrymple Weir Dalrymple, B.A., A.C.A., London.
,, Lionel Edwin Dyne, A.C.A., Solihull.
,, Ernest Leonard Douglas Fowles, A.C.A., Caterham.
,, Henry James Maurice Gregory, F.C.A., London.
,, John Stuart Harrison, A.C.A., Alton.
,, Thomas Howard Head, F.C.A., London.
,, Harvey Longrigg, F.C.A., Colwyn Bay.
,, George Clifford Pocock, A.C.A., Lyndhurst.
,, Robert Stanley Smart, F.C.A., Sydney, NSW.
,, Edgar Sproat, A.C.A., Halifax.
,, James Knowles Tattersall, A.C.A., Chorley.
,, Herbert Terras, F.C.A., Manchester.
,, George Oswald Theobald, A.C.A., Guildford.
,, Henry Leonard Warmsley, A.C.A., Blackburn.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

SIXTY-FOURTH ANNUAL MEETING

The sixty-fourth annual meeting of members of The Institute of Chartered Accountants in Ireland was held at 7 Fitzwilliam Place, Dublin, on Saturday, May 3rd, 1952. Mr Herbert E. A. Addy, F.C.A., was in the chair and the following members were present:

Mr P. Butler, *Vice-President*, Messrs F. Cleland, W. H. Fitzsimons, G. F. Klingner, E. T. McCarron, H. Trevor Montgomery, P. J. Purtill and G. Hill Tulloch *Members of Council*, and J. Bacon, Capt. E. W. C. W. Bailey, M.C., Messrs K. Briscoe, G. Brock, M. P. Corrigan, R. N. Crawford, A. E. Dawson, H. H. Forsyth, D. M. Foster, W. C. Gardiner, E. A. Grace, S. A. Harding, N. V. Hogan, J. Johnston, T. D. Lorimer, A. N. Lovesy, E. W. McDowell, J. C. Magowan, J. Malone, H. C. Meharg, J. J. Murphy, J. C. Oakes, John J. O'Byrne, A. R. Ormsby, J. J. Patterson, S. H. Polden, D. W. Pratt, H. M. Quinlan, H. W. Robinson, C. F. Smith, G. Scott, J. Troy, J. Walker, D. McC. Watson, G. L. M. Wheeler, F. C. Winkelmann, and W. F. Woodworth, with Mr Wm. Edmiston Crawford, *Secretary and Treasurer*, and Mr H. Stevenson, *Joint Secretary*, in attendance.

Apologies for absence were received from:

Messrs J. Bailey, A. S. Boyd, H. Boyd, G. E. Cameron, M. M. Connor, G. B. Duffin, W. M. Geddes, T. Geoghegan, J. Graham, R. G. Henderson, S. A. Laughlin, R. C. Lewis-Crosby, R. E. McClure, T. E. R. McDonald, E. McKee, J. T. Montgomery, E. P. O'Carroll, F. H. Pim, J. Pinkerton, Wm. L. H. Rodden, R. Stanley Stokes and A. W. Warnock.

EXTRACTS FROM THE PRESIDENTIAL ADDRESS

Submitting the Council's report and statement of accounts[1] for the year 1951, the President, Mr H. E. A. Addy, F.C.A., Belfast, said in the course of his presidential address:

The annual report, with the accompanying accounts for 1951, which I present for your consideration, gives a survey of the year's administration.

I do not propose to review the report in detail but as the year just closed has been exceptional in several respects, I hope you will bear with me if I refer at some length to matters of special importance.

Deaths

We have to record with regret the death during the year of six of our members. Amongst these were two to whom particular reference should be made because of their long association with the Institute. I refer to Mr Samuel Smyth and Mr J. O. Wilson. Mr Smyth was President in 1931–33 and had served for twenty years on the Council before his retirement in 1940. Mr J. O. Wilson, a senior partner in the firm of Wilson, Hennessey & Crawford (of which firm Mr Frank Cleland, a member of the Council, is a partner) had at the time of his death been a member of the Institute for over forty years.

Resignation

During the year, Mr R. Stanley Stokes retired from the Council after over twenty years' service, and his resignation was received by the Council with much regret. I am sure it will be your wish to endorse the Council's appreciation of the valuable service rendered by him to the Institute. The vacancy thus caused was filled by the co-option of Mr G. Francis Klingner, who has been a valuable accession to the Council.

Membership

The steady, if unspectacular, increase in membership is gratifying, but 'counting heads' gives no indication of the influence which the Institute exerts in an increasing degree upon the commercial, industrial and public life of the country.

The relatively simple routine of accountancy services of some years ago has given place to a wide range of services, often of a specialized or highly technical nature.

In 1949 a report was published by the Carr-Saunders Committee, a Committee set up by the Minister of Education in the late British Government. In one part of this report the accountancy profession was singled out in connexion with the Committee's proposals, and the recommendations, if implemented, would have disrupted the whole of the English Institute's system of education and training of entrants into the profession. The Council of the English Institute, in due course, issued a report which, while covering a much wider field, was in effect a cogent rejoinder.

In view of the degree of knowledge and skill expected from the professional accountant today, it is arresting, to say the least of it, to read the following definition given to the word 'profession' by that committee:

> 'Any body of persons, using a common technique however meagre in content and however little related to fundamental study, who form an association, one purpose of which is to test competence in the technique by means of examinations.'

New Premises

During the year the transfer of the Institute's offices from Dawson Street to our new premises in Fitzwilliam Place was completed. I am confident that, while the purchase of this property has involved us in substantial outlay, it will become increasingly apparent as time goes on that it was a wise step to take.

Examinations

The results of the examinations in 1951 show a deterioration as compared with 1950. Only 31 per cent of the entrants passed in the Final examination. In May last no less than two-thirds of the candidates presenting for the Final examination had failed at previous sessions.

Unquestionably, the standard of examinations set by the Institute is high but it is clear that too large a proportion of the candidates are either insufficiently prepared or have little aptitude for the work of an accountant, or both.

It is now the practice of the Institute to issue printed notices with details of the results to candidates who have failed. I suggest that the principals concerned should make a point of inspecting these notices, so that they may be in a position to help and advise their clerks.

Articled Clerks

At December 31st last there were 331 clerks serving under articles, the comparable figures being 319 at the end of 1950 and 294 at the end of 1949. The net increase in the inflow is satisfactory, having regard to the attraction of immediate and sometimes quite disproportionate remuneration offered to youths commencing in other occupations. The recruitment of the best type of entrant into the Institute is a matter of supreme importance and in selecting articled pupils may I beg our members to regard themselves as owing a duty to the Institute in this matter. It is difficult for a youth coming from school to appreciate all that is

[1] Not reproduced. – Editor.

entailed in taking up an accountancy career. He may have only the remotest idea as to the nature of the work, and even a probationary period may not leave him very much the wiser. Nevertheless, I would recommend that before articles are executed, a short probationary period should be served in the principal's office. Such a course is likely to be in the best interests of both principal and clerk and may help to direct into other occupations, youths who would be a misfit in the accountancy profession.

Income and Expenditure

The total income for 1951, from entrance fees and from certificate fees and annual subscriptions, including the voluntary addition thereto of 50 per cent, came to £3,213. On the other hand, the items which may be regarded as making up the basic cost of administration amount to £3,227. The latter figure, I should explain, does not include the yearly grant to the Dublin Society. It is of interest to contrast these figures with, say, those of the year 1937. In that year, the comparable figures were: income £1,443 and expenditure £651. It will be observed that whereas the income in 1951 is just a little over twice that of the year 1937, the expenditure has expanded and is now approximately *five* times that of the earlier year. From the standpoint of finance, 1951 may be regarded as a period of transition, and on that account it is difficult to forecast how 1952 will turn out. In view, however, of prospective commitments during this year, mainly of a non-recurring character, a substantial deficiency in the income account would appear to be inevitable.

Apart from abnormal outlay, our current expenditure is running at a level which cannot be met by the existing scale of fees.

In this connexion, I would draw attention to the fact that, apart from the 50 per cent voluntary increase, the annual certificate fees of practising members have remained unchanged since 1921, and the annual subscriptions of members not in practice have remained unaltered since the Institute was founded in 1888.

I am putting the position before you so that if the Council, in reviewing the situation before the end of this year, come to the conclusion that an upward revision in the scale of fees and subscriptions in 1953 is necessary, the members will understand why such a step is necessary.

In the meantime, there are two possibilities which, if appropriate action were taken by the members concerned, would serve to increase the income forthwith.

There are at present sixty associate members who have each been in practice for over five years and are consequently qualified, but have never applied, for admission to fellowship. As many of these members have probably never given the matter any thought, I am taking the opportunity of drawing their attention to it.

Furthermore, although some 94 per cent of the members have, as a matter of course, paid the voluntary increase of 50 per cent on the fees, some forty-nine members have failed to do so.

District Societies

A review of the Institute's affairs would be incomplete without featuring the work of the Belfast and Dublin Societies, and I wish to pay a special tribute to the officers and members of the committees for the important contribution which they make to the work of the Institute through the service which they give to the two societies.

The Council is indebted to the committee of the Dublin Society for a very comprehensive 'memorandum' on the Institute's examination syllabus and to the Belfast Society for a report of their views thereon. Both documents were referred to a committee of the Council, whose report, with suggestions for revision of the syllabus, is at present under consideration by the Council.

During the year the Belfast Society prepared a memorandum which was submitted by the Institute to the Royal Commission on the Taxation of Profits and Income regarding this important subject.

Another matter which has been causing concern in Northern Ireland is the incidence of estate duty in relation to private companies. I refer particularly to the relevant part of the Finance Act (No. 2) of 1946, which, except in one respect, follows on the lines of the British Finance Act of 1940, as amended in 1944. On the initiative of the Belfast Society, a joint committee was set up consisting of representatives of the Incorporated Law Society and the Belfast Society and, after an intensive study of the relevant sections, a memorandum was drawn up and transmitted by the Committee to the Minister of Finance. This memorandum was frank in the extreme in its criticism of the anomalies and ambiguities comprised in the legislation.

A notable development of the Belfast Society in recent years has been the establishment of an Industrial and Administrative Group within the Society. This group consists of members of the Institute who are engaged in industry or in the service of public boards or Government departments, most of whom hold responsible executive offices. I believe the Dublin Society has a similar project in view. Of our total membership, about 40 per cent are engaged in occupations in Ireland outside the profession. It is important, therefore, for the Societies in their organization and plans, to see to it that the obligation to this important group of our membership is not overlooked.

Company Law Reform in Eire

The representatives of the Institute on the Committee on Company Law Reform, which was set up more than a year ago by the Attorney-General, are Mr Brock and myself. Except during vacations, the Committee since its inception has met regularly each fortnight in Dublin, and both Mr Brock and I have attended most of these meetings.

International Congress on Accounting

The Institute, as a sponsoring body, is, as you are aware, represented on the Council and various committees of the Congress. The Congress will be held in London during June and I would hope that a large representation from the Institute will attend.

Co-ordination

Regarding co-ordination; briefly, the position is that it is proposed at this stage, definitely to abandon the idea of proceeding with any new Bill, and that an approach be made to the Board of Trade with a view to an amendment of the Companies Act, 1948, in respect only of the qualification of auditors.

Conclusion

I am sure that members who have read the report of the Council, perused the accounts and listened to the survey of the past year, will have some realization of the exacting nature of the work of the secretarial staff, and I would like to express to Mr Crawford and staff, and to Mr Stevenson and Miss Lawlor of Belfast, on behalf of the Council and myself, our grateful appreciation of their services.

ELECTION OF OFFICERS

The co-option of Mr G. Francis Klingner to the Council during the year was unanimously confirmed on the proposal of Mr H. H. Forsyth, seconded by Mr G. Brock.

The four retiring members of the Council, Messrs F. Cleland, P. J. Purtill, Wm. L. H. Rodden and G. Hill Tulloch, were declared re-elected, no other nominations having been received.

Mr H. E. A. Addy, Belfast, President, and Mr P. Butler, Dublin, Vice-President, were unanimously re-elected for the ensuing year.

Mr Wm. Edmiston Crawford, Secretary and Treasurer, and Mr Hugh Stevenson, Joint Secretary, Belfast, and the joint Auditors, Mr D. McC. Watson and Mr J. Graham, were re-elected unanimously.

The following members were reappointed to represent the Institute on the Nomination Committee for the Industrial and Commercial Panel under the Seanad Electoral (Panel Members) Act, 1947: Messrs P. Butler, E. P. O'Carroll, P. J. Purtill, H. W. Robinson and R. Stanley Stokes.

On the proposal of Mr P. J. Purtill, a most hearty vote of thanks to the President, Mr H. E. A. Addy, for his services to the Institute was carried with acclamation.

QUARTERLY AND SPECIAL MEETINGS OF THE COUNCIL

At the quarterly and special meetings of the Council of the Institute of Chartered Accountants in Ireland on May 2nd and 3rd, the following were present:

Messrs H. E. A. Addy, *President* (in the chair), P. Butler, *Vice-President*, F. Cleland, W. H. Fitzsimons, G. F. Klingner, E. T. McCarron, H. Trevor Montgomery, P. J. Purtill, and G. Hill Tulloch, with the Secretary-Treasurer, Mr Wm. E. Crawford, and the Joint Secretary, Mr H. Stevenson, in attendance.

Apologies for absence were submitted from Mr John Bailey and Mr Wm. L. H. Rodden.

Mr William Joseph O'Neill, Dublin, applied for and was admitted to fellowship.

Applications by the following members for admission to associateship in practice were acceded to:

Mr Barclay Philip Clibbon and Mr John Good, of Cork, and Mr Michael Patrick Cremin, of Dublin.

It was decided that a Memorandum of Evidence should be prepared and submitted on behalf of the Institute to the Company Law Reform Committee set up by the Attorney-General of the Republic of Ireland.

One articled pupil was granted permission to take his Final examination within the last three months of expiration of his articles, under Bye-law 39 (3); and two pupils applied for and were given permission to sit for their Intermediate examinations before the expiration of one-half of their term of service under articles, under Bye-law 75.

It was reported and noted that 150 entries had been received for the examinations commencing May 6th – an increase of 10 compared with the total for May 1951, thus:

	Intermediate	Final	Total
At the Dublin Centre	60	25	85
At the Belfast Centre	42	23	65
	102	48	150

All the members of the Council were reappointed to the Examination Committee for the ensuing year, under Bye-law 82.

The following seven members of the Council were appointed to be the Investigation Committee for the current year:

Messrs H. E. A. Addy, *President*, P. Butler, *Vice-President*, W. H. Fitzsimons, E. T. McCarron, H. Trevor Montgomery, E. P. O'Carroll and P. J. Purtill.

An application by a former member, who resigned in 1948, for readmission to membership was refused.

Matters in connexion with the forthcoming Congress in London, on June 16th to 20th, and the entertainment of overseas delegates visiting Ireland after the Congress were under consideration.

Accounts amounting to £694 were sanctioned for payment, including an advance of £150 to the Dublin Society of Chartered Accountants.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

MEMBERS ADDRESSES WANTED

The Secretary of the Institute would be glad to know the present addresses of the following members of the Institute. The town at which the member was last known is shown after each name.

Henry Charles Darby, A.C.A., *London.*
Leonard Frederick Dawson, A.C.A., *London.*
Frederick Charles Elstob, A.C.A., *London.*
Albert Edward Howard, A.C.A., *Stoke-on-Trent.*
John Kerr Lawson, A.C.A., *Manchester.*
Robert Leslie Leech, A.C.A., *Wigan.*
Frank Norris Pinder, A.C.A., *Cheltenham.*
Leslie Samuel Ramsden, A.C.A., *Sheffield.*
Philip Henry Stancliff, A.C.A., *Leeds.*

TAXATION AND RESEARCH COMMITTEE

The sixty-fourth meeting of the Taxation and Research Committee was held at the Institute on Thursday, April 17th, 1952, at 2 p.m.

Present: Mr W. W. Fea (in the chair); Messrs T. Fleming Birch, R. P. Brown, J. B. Burnie, F. Carruthers, J. Cartner, D. A. Clarke, J. Clayton, R. W. Cox, E. H. Davison, W. G. Densem, R. B. Dixon, S. Dixon, W. P. Elliott, O.B.E., F. J. Eves, E. S. Foden, F. M. Gilliat, G. G. G. Goult, G. S. Hamilton, E. A. Harris, N. B. Hart, O.B.E., T.D., J. Latham, C.B.E., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., G. P. Morgan-Jones, H. Norris, R. J. Ogle, A. H. Proud, A. P. Ravenhill, P. M. Rees, M.C., P. V. Roberts, C. N. Storey, H. F. Strachan, W. F. Tidswell, C. P. Turner, A. Whittaker and G. H. Yarnell, with an Assistant Secretary of the Institute and Mr K. H. Saunderson, Assistant to the Taxation and Research Committee.

STANDING SUB-COMMITTEES

Reports, as under, were received and discussed:

- Cost Accounting Sub-Committee (including progress reports by two drafting sub-committees) – Mr Davison.
- General Advisory Sub-Committee (including progress reports by four drafting sub-committees) – Mr Fleming Birch.
- Taxation Sub-Committee (including report on a meeting held to consider points arising on the Finance Bill, 1952) – Mr Gilliat.

Ad Hoc SUB-COMMITTEES

The chairmen of two special committees reported progress.

NEXT MEETING

The next meeting of the committee was fixed for Thursday, July 10th, 1952, at 2 p.m.

Personal

MESSRS TINGLE COMBER & CO, Chartered Accountants, of Warnford Court, Throgmorton Street, London, EC2, announce that as from May 1st, 1952, they have admitted into partnership, Mr PHILIP ALFRED BAYLISS, A.C.A., who has been associated with the firm for some years.

MESSRS H. S. BAKER & CO, Chartered Accountants, of 1–5 Broad Street Place, London, EC2, and Bletchley, Bucks, announce that as from April 1st, 1952, they have taken into partnership Mr CHARLES MICHAEL DANIEL, A.C.A., and Mr KENNETH JAMES FULLER, A.C.A. The style of the firm will remain unchanged.

MESSRS BLACKBURNS, ROBSON, COATES & CO, Chartered Accountants, announce that Mr GEORGE ERNEST BAINBRIDGE, A.C.A., who has been a senior member of their staff for many years, has been admitted to the partnership and will practice at their Bradford office.

MESSRS BUCKLE, SYKES AND WEATHERLY, Chartered Accountants, of Chartered Bank Chambers, Penang, Malaya, announce that Mr B. H. ROBSON, A.C.A., has been admitted into partnership as from January 1st, 1952. The name of the firm remains unchanged.

MESSRS J. H. HUGILL & CO, Chartered Accountants, of Warnford Court, Throgmorton Street, London, EC2, announce that as from May 1st, 1952, they have admitted into partnership, Mr EDWARD ERNEST NEWBALD, M.C., A.C.A., and Mr PHILIP ALFRED BAYLISS, A.C.A. Mr NEWBALD is a partner in their associated firm, TINGLE COMBER & CO, and Mr BAYLISS served his articles with the firm, and has been a member of the staff for some years.

The Late Mr James Gibson Harris, F.C.A.

A memorial service for the late Mr James Gibson Harris, F.C.A., will be held next Wednesday, May 21st, at 2.30 p.m. at St James's, Garlick Hythe, Garlick Hill, London, EC4.

In Parliament

INCOME TAX

Mr P. ROBERTS asked the Chancellor of the Exchequer what would be the cost to the Treasury of a reduction in the standard rate of income-tax of 6*d* in the £ and 1*s* 6*d* on earned incomes, respectively.

Mr R. A. BUTLER: A reduction of 6*d* in the standard rate of income-tax from 9*s* 6*d* in the £ to 9*s* 0*d* in the £ with *pro rata* reductions in the reduced rates would cost £83 million this year and £95 million in a full year. A reduction of 1*s* 6*d* in the standard rate from 9*s* 6*d* in the £ to 8*s* 0*d* in the £ in the case of earned income only would cost £96 million this year and £120 million in a full year.

Hansard, May 6th, 1952. Written Answers, Col. 16.

£ STERLING: PURCHASING POWER

Major LLOYD asked the Financial Secretary to the Treasury the value of £2,000 in terms of the value prevailing when this figure was chosen for the level of income at which sur-tax begins.

Mr BOYD-CARPENTER: Sur-tax, then called super-tax, was charged at £2,000 for 1920–21 for the first time. It is estimated that in March 1952, £3,000 had approximately the same value in terms of purchasing power as £2,000 had in 1920–21.

Mr OSBORNE asked the Chancellor of the Exchequer the internal purchasing power of the £ sterling to the nearest convenient date, as compared with 20*s* in July 1945.

Sir A. SALTER: About 13*s* 10*d* in March 1952, as compared with an average of 20*s* in 1945.

Hansard, May 8th, 1952. Written Answers, Col. 52.

Accountants' Examinations in America

Certified public accountants in the U.S.A. now have the first professional examination which is uniform throughout the nation. Pennsylvania, the forty-eighth State to adopt the uniform C.P.A. examination, will use it for the first time next November. The State had previously prepared its own tests, which were similar to the uniform examination. From 1896, when New York passed the first legislation giving State recognition to certified public accountants, until 1917, each State prepared its own tests.

The two-and-a-half day examination measures the C.P.A. candidates' knowledge and judgment in the fields of auditing, accounting theory, accounting practice, and related subjects. The test is prepared by a board of examiners elected by the Council of the Institute and is administered by State boards of accountancy. The Institute also offers a grading service, used by most of the States, but the final decision on candidates is made by the State boards. Last November, 11,553 candidates in fifty-two States and territories took the examination.

The Manchester Society of Chartered Accountants

The annual report for the year ended December 31st, 1951, was presented at the seventy-first annual general meeting of the Society held on April 28th last and records a further increase in membership which now numbers 866 compared with 783 in the previous year.

During the year a branch of the Society was established at Bolton with an initial membership of 34. The number of members on January 31st last was 55.

The North Lancashire Branch of the Society has continued to increase its membership which now numbers 210. A report of the annual general meeting and one-day conference of the Branch held on March 29th last was published in our issue of April 5th.

The officers elected for 1952–53 are as follows:

President: Mr E. G. Turner, M.C., F.C.A.
Vice-President: Mr M. Wheatley Jones, J.P., F.C.A.
Honorary Librarian: Mr H. E. Wilkinson, J.P., F.C.A.
Honorary Treasurer: Mr A. H. Walton, A.C.A.
Honorary Secretary: Mr J. S. Harrower, A.C.A., Messrs Thomson McLintock & Co, 57 King Street, Manchester, 2.

Belgium: Removal of Restrictions under the Trading With the Enemy Act, 1939, and the Custodian of Enemy Property Order

The following announcement has been made by the Board of Trade:

By Regulation 6 of the Defence (Trading with the Enemy) Regulations, 1940, Custodian and Board of Trade control was continued over the property in the United Kingdom of persons in areas, such as Belgium, which had ceased to be in the occupation of the enemy, until it was otherwise decided.

An Order has now been made (Statutory Instrument No. 880, price 2*d*) removing control (under the Trading With the Enemy Act, 1939, and orders thereunder) in respect of the money and property of persons resident or carrying on business in Belgium. In a few cases such money and property may also

have come under the control of an Administrator of Enemy Property, and the latter's control is not affected by the statutory instrument.

Bank balances and moneys payable by bankers to or for the benefit of individuals or bodies of persons resident or carrying on business in Belgium are being released by the Custodian of Enemy Property to United Kingdom banks for the credit of the original account-holder.

Applications for the release of moneys other than those described in the preceding paragraph which have been paid to, or of property which has been vested in, a Custodian of Enemy Property, only because the payee or owner was resident in Belgium, should be made to the Administration of Enemy Property Department (Branch 4), Lacon House, Theobald's Road, London, WC1.

Company secretaries, registrars and other persons concerned with transfer of securities or other property in respect of which authority under Trading with the Enemy legislation has hitherto been required only because the owner was resident in Belgium, should note that such authority is no longer required.

Japanese Property in this Country

BOARD OF TRADE TO APPOINT ADMINISTRATOR

An Order in Council[1] has been made under the Japanese Treaty of Peace Act, 1951. It was published on May 7th and came into force the same day.

The Order provides for the collection and realization of Japanese property in accordance with Article 14 of the Treaty which gives to the United Kingdom the right to seize Japanese property, rights and interests (with certain exceptions) within its jurisdiction. It provides for the appointment by the Board of Trade of an Administrator of Japanese Property with certain powers and duties for those purposes. The Administrator will then deal with the proceeds of collection and realization of Japanese property in this country in accordance with Treasury directions.

Every person who holds, controls or manages Japanese property or owes a debt which is Japanese property is required to furnish particulars thereof to the Administrator within three months from the date when the Order comes into operation, unless particulars have already been furnished to a Custodian of Enemy Property. A similar obligation is also imposed upon any company, municipal authority or other body, when the Japanese property consists of shares, stocks or other securities issued by such company, authority or body, or any right or interest therein. The Administrator may, by notice, require the production of books, documents or information. The Order prohibits any dealing with 'Japanese property' as defined except with the consent of the Administrator.

The Order gives legal effect to those provisions of the Japanese Peace Treaty and Protocol which were signed on September 8th, 1951, which require to be made part of municipal law.

The Order applies with certain modifications to the whole of Her Majesty's dominions (except the Dominions) including Scotland, Northern Ireland, the Channel Islands and the Isle of Man, and to the Protected Territories specified in the Second Schedule to the Order.

The address for correspondence arising out of the Order is the Administration of Enemy Property Department, Lacon House, Theobald's Road, London, WC1.

[1] *The Japanese Treaty of Peace Order, 1952.* S.I. 1952, No 862. H.M.S.O. Price 6d.

The Leeds, Bradford and District Society of Chartered Accountants

During 1951 there was an increase of 42 in the total membership of the Society (including the North Yorkshire and South Durham branch); the annual report for 1951 shows that 455 are members in practice and 167 are not in practice.

The report records that besides the monthly luncheon meetings of members held in Leeds and Bradford, three lectures have been given to the Society in 1951.

The annual dinner of the Society, held in Leeds on November 22nd, 1951, was attended by 290 members and guests and among those present were the President of the Institute and the Lord Mayor of Leeds.

The following officers and Committee have been elected for 1952–53:

President: Mr C. A. Harrison, O.B.E., F.C.A.
Vice-President: Mr Cecil L. Davies, F.C.A.
Honorary Secretaries: Mr G. N. Hunter, F.C.A., and Mr K. G. Warriner, F.C.A.
Honorary Treasurer: Mr E. R. Longman, F.C.A.
Committee: Messrs H. H. Blackburn, F.C.A. (Bradford); H. Bolton, F.C.A. (Leeds), C. E. Claridge, F.C.A. (Bradford); Cecil L. Davies, F.C.A. (Leeds); A. Dobson, F.C.A. (Leeds); C. A. Harrison, O.B.E., F.C.A. (Bradford); G. N. Hunter, F.C.A. (Leeds); E. R. Longman, F.C.A. (Leeds); G. P. Marsden, A.C.A. (Halifax); S. T. Milner, F.C.A. (Harrogate); J. W. G. Mitchell, F.C.A. (Bradford); C. D. North, F.C.A. (Batley); W. W. Powell, F.C.A. (Leeds); G. W. Smith, F.C.A. (Huddersfield); D. Steele, F.C.A. (Bradford); Derek Veale, M.A., F.C.A. (Leeds); Rupert Walton, F.C.A. (Leeds); Victor Walton, F.C.A. (Leeds); K. G. Warriner, F.C.A. (Leeds); and A. Welch, M.A., F.C.A. (Bradford).

Mr C. W. Boyce, C.B.E., F.C.A., and Mr E. Duncan Taylor, F.C.A., are *ex officio* members of the Committee as members of the Council of the Institute practising in the district.

NORTH YORKSHIRE AND SOUTH DURHAM BRANCH

The report for 1951 of the North Yorkshire and South Durham branch of the Society shows that the branch membership is now 73. Four lecture meetings have been held, all of which were well attended, and visits

were made to factories in West Hartlepool, Guisborough and Darlington. In September last, the North Yorkshire and South Durham Chartered Accountants Students' Society was formed and groups have since been established in local towns.

The following officers and committee were elected for the ensuing year:

Chairman: Mr A. Henderson, A.C.A.

Vice-Chairman: Mr H. D. Anderson, J.P., F.C.A.

Honorary Secretary: Mr C. H. W. Sansom, A.C.A., 17 Albert Road, Middlesbrough.

Honorary Treasurer: Mr J. C. Gregory, A.C.A.

Committee: Messrs H. D. Anderson, J.P., F.C.A. (Middlesbrough); J. B. Fell, A.C.A. (Billingham); J. C. Fortune, F.C.A. (West Hartlepool); A. Henderson, A.C.A. (Middlesbrough); H. E. W. Hinde, A.C.A. (Darlington); W. J. E. Ringquist, J.P., F.C.A. (Stockton); C. G. Sparrow, F.C.A. (Stockton); J. L. Steward, A.C.A. (West Hartlepool); Andrew Whyte, A.C.A. (Darlington); H. Wood, F.C.A. (Bishop Auckland).

Mr C. U. Peat, M.C., M.A., F.C.A., is an *ex officio* member of the Branch Committee, as a member of the Council of the Institute practising in the district.

The Nottingham Society of Chartered Accountants

The report of the Committee of the Nottingham Society of Chartered Accountants for the year ended December 31st, 1951, was presented at the annual general meeting held on April 25th and shows an increase in membership over the previous year of 68, the total being 222.

Mr J. S. F. Hill, A.C.A., who had acted as honorary secretary and treasurer of the Society since 1947, relinquished the position at the meeting and received the thanks of the committee for his hard work during his five years in office.

The officers for 1952–53 are as follows:

President: Mr E. P. Broome, F.C.A.

Vice-President: Mr J. S. F. Hill, A.C.A.

Honorary Secretary and Treasurer: Mr H. J. Clarke, F.C.A., Russell Chambers, King Street, Nottingham.

Honorary Librarian: Mr C. E. Akeroyd, F.C.A.

Honorary Auditor: Mr H. R. Hilton, F.C.A.

Ordinary Members of the Committee: Messrs H. B. Bradfield, M.C., F.C.A.; E. P. Broome, F.C.A.; J. B. Burnie, F.C.A.; R. W. Cox, F.C.A.; H. J. Clarke, F.C.A.; P. Doughty, F.C.A.; W. L. Dunn, F.C.A.; T. Higson, F.C.A.; J. S. F. Hill, A.C.A.; A. B. Inger, A.C.A.; O. A. J. Ling, J.P., F.C.A.; T. R. Moore, A.C.A.; C. L. O'Callaghan, A.C.A.; H. F. Palmer, M.B.E., F.C.A.; T. W. Rigley, A.C.A.; L. W. Underwood, F.C.A.

Member of the Committee Ex Officio: P. F. Granger, F.C.A.

Library Sub-Committee: Messrs E. P. Broome, F.C.A., and P. F. Granger, F.C.A.

Chartered Accountants' Golfing Society

The fifty-third annual general meeting of the Society was held at the New Zealand Golf Club, West Byfleet, Surrey, on Thursday, May 8th, 1952. The audited accounts for the year to March 31st, 1952, were approved and adopted and the following appointments were made for 1952–53:

President: C. le C. Browning.

Vice-Presidents: D. V. House, R. J. Pigott, J. B. Pittman.

Captain: E. H. Wingfield.

Vice-Captain: S. G. Sillem.

Hon. Treasurer and Secretary: D. V. House, 3 Lombard Street, EC3.

Hon. Match Secretary: J. B. P. Williamson, 11 Coleman Street, EC2.

Hon. Auditor: J. S. Hyland.

Committee: R. A. Daniel (London); C. E. M. Emmerson (London); F. Green (Norwich); C. G. Midgley (London); F. Pragnell (Nottingham); P. V. Roberts (Bristol); J. B. P. Williamson (London); A. D. Walker (Liverpool); L. R. Elcombe (London); R. D. Henderson (London).

Fifty-two members took part in the competitions played during the day, the leading results being:

MEDAL COMPETITION (Stableford scoring)

1	D. H. Brown	(20)	19 plus 17½ = 36½ Wins Captain's Prize and Ernest Cooper Challenge Cup.
2	R. G. Pegler	(4)	32 plus 3½ = 35½ Wins second prize and Scratch prize.
3	T. R. T. Bucknill	(11)	24 + 9⅝ = 33⅝
4	D. C. Urry	(12)	23 ,, 10½ = 33½
5	J. C. Powell	(14)	21 ,, 12¼ = 33¼
6	A. C. Falkner	(24)	15 ,, 18 = 33
7	D. W. Gibson	(11)	23 ,, 9⅝ = 32⅝
8	H. E. Harden	(12)	22 ,, 10½ = 32½
9	A. L. Bersey	(15)	19 ,, 13⅛ = 32⅛
10	H. D. Nicholson	(2)	30 ,, 1¾ = 31¾
11	H. Scott Thompson	(11)	22 ,, 9⅝ = 31⅝
12	H. A. Astbury	(12)	21 ,, 10½ = 31½
13	R. D. Henderson	(5)	27 ,, 4⅜ = 31⅜
14	J. B. Pittman	(9)	23 ,, 7⅞ = 30⅞
15	E. E. W. Mullett	(10)	22 ,, 8¾ = 30¾
16	L. R. Elcombe	(19)	14 ,, 16⅝ = 30⅝
17	H. G. J. Foulger	(15)	17 ,, 13⅛ = 30⅛
18	L. E. Parsons	(16)	16 ,, 14 = 30

GREENSOME (Points scoring)

1	M. T. W. Easby (3) and H. D. Nicholson (2) Win first prize.	37
2	R. D. Henderson (5) and R. A. Daniel (10) Win second prize (on last nine holes).	36
3	R. G. Pegler (4) and J. R. Darby (8)	36
4	T. R. T. Bucknill (11) and H. Scott Thompson (11)	34
5	H. A. Astbury (12) and D. C. Urry (12)	33
	J. Dixon (14) and A. L. Bersey (15)	33
	D. W. Gibson (11) and D. H. Brown (20)	33
	J. D. Green (18) and L. V. Mills (12)	33
	A. M. Lotery (12) and J. C. Powell (14)	33
	W. H. Parton (18) and H. G. J. Foulger (15)	33

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CONTENTS

THE CASE FOR CONTINUITY

MR C. PERCY BARROWCLIFF, F.S.A.A., in his presidential address at the sixty-seventh annual general meeting of The Society of Incorporated Accountants and Auditors, held in London on Wednesday, expresses the opinion that a much better understanding of the full implications of our industrial structure appears to be necessary. The arguments which the PRESIDENT puts forward are already familiar. Commercial enterprises should not be regarded as short-term affairs but as lasting concerns the survival of which is vital to the national economy. The observance of this principle of continuity has hitherto been a major contributory factor to our prosperity as a great commercial nation, but in recent years two important developments have threatened to undermine this heritage. One is the change in money values. The other is the burden of taxation.

To offset the adverse effects of the former, MR BARROWCLIFF considers that once the concept of continuity is agreed, then there should be no difficulty in accepting the principles that, in measuring real profit, depreciation of fixed assets should be charged on the basis of their replacement value and that closing stocks should be valued at their current cost. MR BARROWCLIFF will have an early opportunity for elaborating his views on this controversial topic for he is due to submit a paper on 'Fluctuating price levels in relation to accounts' at the International Congress on Accounting next month.

The PRESIDENT rightly deplores the harm that is being done to the country's long-term interests by the burden of taxation. He condemns the present rates of income-tax and sur-tax as destroying initiative and the vital element of incentive, and stigmatizes both profits tax and the excess profits levy as unsound in principle. Death duties he regards as an extravagant way of using capital to pay for current expenditure and contends that the annual amount collected – about 4 per cent of the total revenue – is out of all proportion to the mischief done, especially to medium-size family businesses many of which are being crushed out of existence. MR BARROWCLIFF asks that the whole question of death duties should be reconsidered, particularly with regard to, firstly, the unduly high rates which create considerable hardship and are inconsistent with current taxation; and secondly, the invidious treatment of estates involving private businesses which come within Section 55 of the Finance Act, 1940, whereby their shares and debentures are valued on the net intrinsic worth of the assets. MR BARROWCLIFF submits that here the principle of business continuity should be recognized and that valuations should be based on that principle.

THE ACCOUNTANT IN INDUSTRY

IN his presidential address at the opening session of the twenty-third national cost conference of The Institute of Cost and Works Accountants, held at Buxton last week-end, Mr A. W. MUSE, F.C.W.A., F.A.C.C.A., welcomed the recent statement made by the President of The Institute of Chartered Accountants in England and Wales that, after the International Congress on Accounting next month, his Council proposes to invite other professional bodies to take part in further investigation of the accounting problems caused by fluctuations in the purchasing power of money. This vexed question, said Mr MUSE, demanded the close attention of all accountants as the business world had a right to know the authoritative views of the profession as a whole.

Mr MUSE went on to consider the other tasks which confront the accountant in industry in addition to the accepted one of supplying management with 'a complete service in figures'. As well as knowing why these statistics are required, he must also have the initiative to present them in a way which will be to the best advantage of management in considering policy. Mr MUSE summarized the functions of the industrial accountant as follows:

> Firstly: He must find out where the business he is serving is heading, at any particular time, and what its long-term proposals are. His forecasting must be based upon past achievements, tempered by present conditions and influenced by future possibilities.
>
> Secondly: He must understand the managerial assumptions relative to the future of the business and the factors which have given rise to these assumptions; and
>
> Thirdly: He must satisfy himself that the policies upon which the business is operated are consistent with the assumptions which have been made and that his figures can prove or disprove such consistency.'

In one of the two papers presented at the technical sessions of the conference, Mr H. WILMOT, C.B.E., F.C.W.A., chairman and managing director of Beyer Peacock & Co Ltd, discussed the training of management accountants. He grouped the qualities required of an efficient management accountant under the heads of capacity, personality and character. The first of these included the professional and technical qualifications which his work would demand, superimposed on a sound general education, with an aptitude for mathematics and the ability to write good English. In addition, a knowledge of the history and principles of scientific management, supplemented by the regular reading of current professional, financial and industrial periodicals and publications, was essential.

Of personality, Mr WILMOT said that the management accountant should fit his post 'like a glove' and be equally acceptable and at ease at every level from the factory floor to the board-room. The ideal qualities of personality might be summed up as sympathy, sincerity and simplicity, and the individual who possessed these against a background of wide cultural and social interests was well endowed.

Character must include integrity, which presupposes impartiality, and the other constituents in this group were vision, courage, persistence, patience, optimism and enthusiasm. If, concluded Mr WILMOT, the training of a management accountant, as he had described it, was indeed a counsel of perfection, it was because he had deliberately set the target high to meet the demands of modern industry.

The other paper, presented by Mr A. D. MACKAY, B.COM., C.A., A.C.W.A., controller of Parkinson & Cowan Ltd, was on the important theme of cost reduction. Mr MACKAY pointed out that, in most industries, a reduction of 10 per cent of all costs was possible without much capital outlay. Insufficient emphasis, he thought, was given to the fact that, as in most cases the element of net profit on each £ of sales was small, a saving of £1,000 in costs might contribute as much to the profits as sales orders of £20,000. The biggest field for cost reduction was procedures – generally developed without plan or control – for, as a recent survey revealed, out of 23 million people gainfully employed in this country, 10 million were clerical workers in industry and in Government service or engaged in distributive trades. Saving in other directions, Mr MACKAY suggested, might be made by a modification of an excessive variety of products; the simplification of product designs; the control and consequent reduction of material usage; the better organization of labour, direct and indirect; and improvements in material handling and plant layout.

THE FINANCE BILL

THIS week the parts of the Finance Bill dealing with income-tax, excess profits levy, and profits tax were considered in Committee.

An optimistic attempt to reduce the income-tax standard rate by sixpence was rejected on the score of cost, likewise a proposal to increase child allowance to £100. The Government undertook to consider extending the earnings limit of £13 which applies to apprentices and the like under Section 212 (3) of the Income Tax Act, 1952.

The income limits applying to a dependent relative under Section 216 are to be increased from £80 to £85 and from £130 to £135. The Government preferred to leave the anomalies of housekeeper allowance to be sorted out by the Royal Commission.

Soon the excess profits levy will be hardly recognizable. A number of sweeping changes are being introduced in the taxpayer's favour, and the resulting loss of revenue is to be made up, but only partly, by increasing the rate of profits tax on distributed profits from 17½ per cent to 22½ per cent.

The minimum standard goes up from £2,000 to £5,000 – a change which will reduce the total number of cases by about one-third. That old bugbear of excess profits tax, the percentage-of-capital-employed standard is to be introduced, as a further optional alternative. The taxpayer may choose the capital employed at December 31st, 1946, or at December 31st, 1951, and a new schedule contains elaborate provisions for its ascertainment. Surplus cash and investments will be included. The standard will be 8 per cent of the capital so computed.

Instead of having to bring in all three years of the standard period, the taxpayer may now choose the best two of the years 1947, 1948 and 1949. Companies operating in territory occupied by the Japanese in the war will be allowed to choose 1949 and 1950. There is a corresponding amendment to the period laid down for the computation of over-distribution and 'un-distribution'. The addition to standards in respect of new capital and ploughed-back profits is increased from 10 per cent to 12 per cent (from 12 per cent to 14 per cent in the case of director-controlled companies).

If the average amount of a company's borrowed money in a chargeable period exceeds that in its standard period, it may add to its standard 4 per cent of the excess, with a corresponding deduction from its standard in the converse case. If the company exercises the option under clause 33 (4) (*a*) in respect of any standard year, it is to be treated as having no borrowed money in that year, for the purpose of the above adjustment. A company which has no profits standard and does not adopt the minimum standard, may add to its standard 4 per cent of its average borrowed money in the chargeable period. These concessions do not affect the deduction of interest paid.

The overriding maximum rate of levy is to be reduced from 18 per cent to 15 per cent of total profit. For companies whose businesses are mainly operated through a permanent establishment oversea, the maximum rate is to be only 10 per cent.

Special relief is to be given to companies producing metals, oil, or asbestos from natural deposits. Where the Treasury certifies that an increase in output of the commodity in question is essential in the national interest, the company may elect to have its profits computed on a favourable basis by reference to its additional output. The additional percentages of capital allowance in favour of metal mines and oil wells provided by clause 47, are to be increased by one-half, i.e. the figures of 4 per cent and 2 per cent in the clause are changed to 6 per cent and 3 per cent respectively.

A new and highly involved clause extends partial group treatment to cases where a company owns at least one-quarter of the ordinary share capital of another company, both being ordinarily resident in the United Kingdom. The same is to apply where the one-quarter share in a company is owned jointly by a group of companies.

For the purpose of deficiency relief under clause 36, the appointment of a liquidator, receiver, etc. of a company's business is not, as was originally provided, to be deemed to be a break in the continuity of the business.

It is understood that there is to be an exemption for 'franked investment income' as in the case of profits tax.

SETTLEMENTS ON MINOR CHILDREN

by SIDNEY I. SIMON

THE Income Tax Act, 1952, Part XVIII, Chapter 2, is headed 'Settlements on children generally'. In this chapter of the Act, embracing Sections 397 to 403 inclusive, are found the provisions of Section 21 of the Finance Act, 1936, and Section 20 of the Finance Act, 1943, and its appropriate schedule. It must be appreciated that the Income Tax Act, 1952, does not purport to alter the law so that decisions on the earlier conglomeration of Acts it replaces are still perfectly good. Unless otherwise stated, references below are to the Income Tax Act, 1952.

The object of the legislation is to provide that income arising under a settlement made after April 21st, 1936, by a parent in favour of an infant and unmarried child of his, is deemed for tax purposes to be the income of the parent and not of the child. The sections themselves are anything but easy to understand.

Meaning of 'Settlement'

Section 403, which deals with the interpretation of Chapter 2, provides that

> '"Settlement" includes any disposition, trust, covenant, agreement, arrangement or transfer of assets'.

An example of an 'arrangement' is seen in *Copeman v. Coleman* (18 A.T.C. 109; 22 T.C. 594). Two minor children were each allotted a preference share of £200 in a company controlled by their father and mother. Each child paid £10 out of his own savings leaving £190 unpaid. The company declared a net dividend of £40 on each preference share and by the same resolution a call of £40 on each share was made. The whole transaction was held to be a 'settlement' and the dividend on the shares was deemed to be income of the father.

An out-and-out gift, being a 'transfer of assets', also constitutes a settlement for the purpose of the sections. (*Hood-Barrs v. C.I.R.* ([1945] 25 A.T.C. 375; 27 T.C. 385) and *Thomas v. Marshall* ([1952] 1 All E.R. 173).) In the latter case a father had deposited money in Post Office Savings Bank accounts in the names of his two infant unmarried children, and also bought Defence Bonds in their names. In his judgment Donovan, J., included this:

> 'Finally, it was contended for the taxpayer that absurd results would follow if one treated any transfer of assets to a child as being within Section 21 (Finance Act, 1936). Suppose a business was transferred by father to son. Is that caught? Again, if stock-in-trade is transferred absolutely, and then sold by the child, can it be said that income is "paid" to a child by virtue or in consequence of the settlement? It is *his* income already. And what about the case of a purchase for full consideration by a child from its father? I agree that neither the transfer of a business nor a sale for full consideration is specifically exempt but, I refrain from indicating any views on the problems they present, for the case I am considering raises none of them. They have long been matters of interest and speculation, and they had better be left to be dealt with if and when the occasion arises.'

Obviously there is food for thought here.

Capital

There is one way of avoiding the effect of these provisions and it is found in Section 398 (2). The method is to settle capital on trustees for the child with a provision that the income therefrom is to be accumulated during minority or until marriage. Such a settlement must be irrevocable. One test whether the income arising from a settlement is to be deemed to be that of the parent is whether it is paid to his minor child in any year *at the commencement of which* the child is an infant and unmarried. If, then, the accumulations are paid over to the child on its twenty-first birthday or on the day of marriage, strictly the income should in that year be deemed to be that of the parent, for at its *commencement* the child was an infant and unmarried.

Concession

There is, however, an extra-statutory concession to the effect that sums accumulated under a settlement contingently upon the child attaining the age of twenty-one or marrying, and which are handed over to the child on the happening of either contingency, are not treated as caught by the subsection above described.[1] This, it should be remembered, is only a concession, and may one day be withdrawn. It is therefore safer to provide that the accumulations shall vest at the age of twenty-two or on April 6th next following

[1] Ninety-third Report of the Commissioners of Inland Revenue, Cmd. 8103, Concession 22 in the Appendix. H.M.S.O.

the income-tax year of assessment in which the marriage takes place.

Maintenance Education or Benefit

It is advisable to provide in the settlement that although the income is to be accumulated, the trustees of the settlement shall have power to apply the settlement income from time to time as they think fit for or towards the maintenance, education or benefit of the child. If they do so apply the income, then the gross equivalent of the income so applied (i.e. the income 'grossed up') will be deemed to be that of the parent and so defeat the very object for which the settlement was probably entered into. But it may be that one day the settlor will fall on evil times when he himself will not be liable to sur-tax, and the expenditure of settlement income on the children may be a necessity. The power to do so may then safely be exercised. Until such time, the existence of the power which is not being exercised does no harm.

Irrevocable

It has already been stated that the settlement must be irrevocable, and the meaning of the word is dealt with in Section 399. A settlement is not to be deemed irrevocable:

(*a*) If any income or assets arising under the settlement may in any circumstances whatever be paid to or applied for the benefit of the settlor, or the husband or wife of the settlor during the life of any child of the settlor who is a beneficiary under the settlement.

(*b*) If the settlement can be determined by the act or default of any person.

(*c*) If the settlement provides for the payment of a penalty by the settlor for failing to comply with its provisions.

However, the settlement will not be deemed to be revocable:

(i) If the income or assets become payable to the settlor, or the husband or wife of the settlor, because of the bankruptcy of the child, or in the event of an assignment or charge on the income or assets being executed by the child.

(ii) If the settlement determines in such a way that only the child, or its spouse or issue can benefit.

(iii) If there is a protective trust under Section 33 of the Trustee Act, 1925, unless the trust period is less than the life of the child or unless the settlement contains a defeasance provision which can operate during the child's life.

Contingent Interest Claim

When the accumulations under the settlement vest in the child there is a possibility of a claim under Section 228 (formerly Section 25, Income Tax Act, 1918). The section provides that where under any will or settlement, income is accumulated for the benefit of any person contingently upon his attaining some specified age or marrying, then when the contingency occurs, that person may claim that the accumulations be treated as his *income* in each year when they were accumulated. He can then claim appropriate personal allowances on the income in each year.

The claim must cover the whole period of accumulation. Even though the accumulations in any one year will be treated as the income of the child in that year, this does not entail a withdrawal of child allowance to the parent, although the accumulation of the year may have exceeded the limit of income for the purpose of child allowance.

Strict Interpretation

The section is interpreted very strictly. The specified age need not necessarily be twenty-one, but any double contingency would defeat a claim to the benefit of the section. (*C.I.R. v. Bone* ([1927] 6 A.T.C. 670; 13 T.C. 20); *C.I.R. v. Maude-Roxby* ([1950] 29 A.T.C. 271; 31 T.C. 388).)

There must be accumulations *in fact*. (*Cusden v. Eden* ([1939] 18 A.T.C. 96; 22 T.C. 435).)

The time limit for making a claim is within six years after the end of the year of assessment in which the contingency happens.

Finally, the settlement should not provide for accumulations after the child attains the age of twenty-five years. (Section 405, formerly Section 38 (3) and (4), Finance Act, 1938.)

This is because if the settlor has an 'interest' in any income arising under a property comprised in a settlement, then the undistributed income arising under the settlement is deemed to be his. He is deemed to have an 'interest' if any income or property of the settlement 'is, or will or may become, payable to or applicable for the benefit of the settlor or the wife or husband of the settlor in *any circumstances whatsoever*'. But he does not have an 'interest' if he can take (*inter alia*) on the death under the age of 25 years of some person who would have been beneficially entitled to the income or the property at the age of 25 or less.

WEEKLY NOTES

The Society of Incorporated Accountants and Auditors

The sixty-seventh annual general meeting of The Society of Incorporated Accountants and Auditors was held on Wednesday last at Incorporated Accountants' Hall, London.

At a meeting of the Council which followed the annual meeting, Mr C. Percy Barrowcliff, F.S.A.A., of Middlesbrough, was re-elected President of the Society and Mr Bertram Nelson, F.S.A.A., of Liverpool, was re-elected Vice-President.

Mr Barrowcliff's presidential address is reproduced elsewhere in this issue and is the subject of a leading article on another page.

The Association of Certified and Corporate Accountants

The Rt. Hon. Lord Latham of Hendon, J.P., F.A.C.C.A., F.C.I.S., has been re-elected President of The Association of Certified and Corporate Accountants, and Mr William Macfarlane Gray, F.A.C.C.A., has been re-elected Vice-President.

Extracts from Lord Latham's presidential address at the forty-seventh annual general meeting of the Association were published in our issue of May 3rd.

The Institute of Cost and Works Accountants

The thirty-third annual general meeting of The Institute of Cost and Works Accountants constituted part of the Institute's twenty-third national cost conference held in Buxton on Friday and Saturday last, May 16th and 17th, which is the subject of a leading article on another page.

Mr Sidney Charles Tyrrell, F.C.W.A., F.I.I.A., was elected President for the ensuing year, and Mr F. W. H. Saunders, F.C.W.A., was elected President-Designate. Mr Tyrrell is a local director and chief accountant of the Newton Chambers & Co Ltd group of companies. He is chairman of the costing committee of the Tank and Industrial Plant Association which in 1948 produced the manual, *Uniform Cost Accounting for the Steel Fabricating and Kindred Industries.* In the First World War Mr Tyrrell served with the Royal Fusiliers and on the outbreak of the last war was seconded for service with the Ministry of Supply where he was Controller of Ordnance Factory Accounts. An accomplished pianist and organist, Mr Tyrrell is founder-chairman of the Thorncliffe Musical Society and the Brampton Musical Society. He is county treasurer of the South Yorkshire Boy Scouts' Association.

Mr Saunders, the new President-Designate, is Clerical Manager of Peek Frean & Co Ltd and is the Cost and Works Institute's representative on the Office Equipment and Supplies Standards Committee of the British Standards Institution.

At the annual banquet of the Institute held at *The Palace Hotel*, Buxton, on Friday evening, the principal guest was Sir Vincent de Ferranti, M.C. Among the other guests present were: Mr C. Percy Barrowcliff, F.S.A.A. (*President, The Society of Incorporated Accountants and Auditors*), and Mrs Barrowcliff; Mr C. W. Boyce, C.B.E., F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*), and Mrs Boyce; Mr G. M. Flather (*The Master Cutler, Sheffield*), and Mrs Flather (*The Mistress Cutler*); Councillor and Mrs H. Hartley (*Mayor and Mayoress of Buxton*); The Rt. Hon. Lord Latham, J.P., F.A.C.C.A. (*President, The Association of Certified and Corporate Accountants*); Mr C. H. Pollard, O.B.E., F.I.M.T.A. (*City Treasurer of Kingston upon Hull, Vice-President, The Institute of Municipal Treasurers and Accountants*).

Canning Productivity Report

The report[1] of the team representing the British food canning industry which went to the United States last summer under the auspices of the Anglo-American Council on Productivity states that, although only the largest companies in the American canning industry operate systems of standard cost accounting, most of the smaller firms on the West Coast use a uniform system of accounting. This enables individual canners to compare their own costs with the summarized average costs for the industry at regular intervals.

The larger companies prepare daily cost reports of material usage and labour utilization. As raw materials and direct labour account for about 70 per cent of the total cost and as each report is available by midday of the following day, a sufficiently accurate check on costs is thus quickly obtained. No daily control of overheads is generally attempted but an estimated amount is added to obtain the total cost per 'basic case'. The information contained in the daily cost report is the 'daily expenditure' together with cumulative totals for the season. The cumulative figures indicate cost trends and enable useful comparison to be made between current estimated costs and last season's actual costs. As the season progresses, a 'schedule of cost review' is prepared giving the breakdown of the actual costs of raw materials and direct labour over all packs by variety, grade, etc. The figures for overheads used in this review are the most recent estimates for the season.

Costs and Foreign Competition

Last week's review of the current economic situation by the Chancellor of the Exchequer to leaders of the trade unions and industry has touched off a certain amount of comment about the dangers of increased foreign competition. The danger is real enough. Much of the gain from devaluation in 1949 has now been swallowed up by higher costs – especially in textiles. This country's position compared with other European countries which have been competing with

[1] Obtainable from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, price 7s 6d post free.

it for dollars, is on the whole favourable (less so again in the case of textiles). But even here it cannot be said that this is a source of congratulation. In some cases our competitors have pursued a more imaginative price policy as regards the dollar market in the recent past than we have, and although this country has now a slight competitive advantage on price (not necessarily on terms of credit and delivery) its competitors may have salted away more dollars in the days when American consumers were less savings-conscious than they appear to be at the moment.

Since the days of the start of the Korean War, world raw materials prices have increased (less consistently in the case of some commodities which the sterling area exports, unfortunately). The Chancellor emphasized last week that these increases had made it correspondingly vital to watch our labour costs, for the world market in consumer and industrial goods was becoming increasingly competitive.

The warning was timely, but it has to be remembered that the problem at this moment is not so much widespread and keener competition in the export market, (except in certain lines this is the great *potential* problem), as a fall in consumer buying in key markets where stocks left from heavy 1951 wholesale and retail buying are still large. In textiles, too, an old problem has reappeared. Some countries are now setting up their own industries to meet domestic requirements – in rayon and hosiery for example. All this does not make it any less important for British prices to be highly competitive, but it should give pause to those who may think that the problem is how to protect British industry in the export market from a flood of competitive cheap goods.

Economists and Indices

The study section of the Royal Statistical Society recently asked a group of sixty-four economists, drawn from the academic and the industrial field to predict the movement during 1952 of five economic indices. The results are set out in the accompanying table.

	Average predictions		
	Academic econom-ists	*Industrial etc. econom-ists*	*Average of all predic-tions*
	(Per cent change 1952 compared with 1951)		
Industrial production (C.S.O. All Items Index)	+1·4	+1·4	+1·4
Volume of exports	−1·9	−1·1	−1·7
Personal expenditure on consumers' goods+services (at 1948 prices)	−1·1	−2·0	−2·0
Interim index of retail prices	+7	+7	+7
	Unemployed as per cent of insured persons		
Average 1952..	2·1	2·0	2·0

It would appear that quite a number of those asked to take part declined the invitation but 70 per cent returned answers. The study group points out that individual forecasts showed wide variations although the mean prediction made by academic economists is close to the mean of the others. The greatest variations are in the prediction of personal expenditure in 1952.

Exercises of this kind may at first arouse only slight professional enthusiasm but they serve an important function in bringing the work of the expert closer into relation with the layman's experience. There is just as much need to disabuse the minds of many people influential in industry, that the economist spends his time arguing about what Robinson Crusoe would do on a desert island, as there once was to educate people to realize that the accountant is not merely someone who keeps an eye on the petty cash.

World Production in 1951

Once the reader has recovered from the surprise of finding the rate of increase in output for this country last year among the bottom three of the countries of the world, he will be struck by the discrepancy between the performance of the world's highly industrialized countries and the rest. The facts are set out with a commentary in the United Nations' *World Economic Report, 1950–51*.

The report shows that the output of world foodstuffs is not keeping pace with the growth of population and that the so-called 'under-developed' countries are not keeping pace with the countries making capital goods so far as output is concerned. More than that, the under-developed countries are not increasing their export surpluses as quickly as the industrialized countries are sending them exports. What is rather surprising is that these exports comprise both consumer and capital goods, the consumer goods being large in quantity and adding significantly to a growing total.

Part of the explanation of this gap between exports and imports must be that some countries are able to draw on accumulated reserves for the time being, thus forcing industrialized countries (notably this one) to send out unrequited exports. But it would be a valuable step to find out why output in 'backward' countries does not respond always as might be expected to higher price levels.

Unemployment in April

The patchy nature of unemployment at present is given further emphasis by the Ministry of Labour figures for the month to April 21st. Over the month which ended on March 31st, the basic industries, which include mining and agriculture, increased their labour force by 13,000 and there was a seasonal recovery in building and contracting work of 14,000. But manufacturing industries lost 57,000 and the distributive trades 7,000. Within the manufacturing group textiles alone accounted for a drop of 27,000 and clothing for 4,000.

Between the end of March and 21st April, there must have been a general improvement except in textiles, for unemployment totalled 467,900, which is an increase of 34,900 on the month. Unemployment in textiles had increased to 38,000 by April 21st, so that other industries had reduced their unemployment by 3,100.

REVIEWS

Dictionary of Costing (Third Edition) by R. J. H. Ryall

(Sir Isaac Pitman & Sons Ltd, London. 30*s* net)

The length of the major articles and the liberal accompaniment of charts and forms make this work more akin to an encyclopaedia than to a dictionary. In the present edition, owing to the ever-increasing importance of human relations in industry and the consequent demand for a scientific method of measuring human efficiency, the items dealing with wage incentives have been revised and expanded to include such matters as job evaluation, merit rating and motion study, together with explanations of all the principal bonus and piece-work schemes in current use. This further enhances the already considerable value of the book which originally was a pioneer of its kind and which, despite the enormous corpus of literature of costing now in being, is still worthy of a prominent place in the library of both student and industrialist.

Palmer's Examination Note Book (Eighth Edition) by Alfred Palmer, A.S.A.A., F.C.C.S.

(Gee & Co (Publishers) Ltd, London. 15*s* net)

It is properly claimed by the publishers that this book, as well as being indispensable to the examination student, is an excellent work of reference for the qualified man. The fact that it has achieved eight editions in twelve years is certainly ample proof of its usefulness. For those who have not yet made its acquaintance, it may be said, briefly, that it consists of concise notes on all the essential points to be remembered in connexion with the sixteen principal subjects found in the syllabus of most accountancy and secretarial examinations. The layout and type are devised to aid easy reading and swift memorization and, to enable the student to make additional notes, the pages of text are interleaved with blank sheets which, amidst so much learning, have the same impact as the flashes of silence which, according to Sydney Smith, rendered Macaulay's conversation so delightful.

The Stock Exchange Official Year-book, 1952 (Volume I) Editor-in-Chief, Sir Hewitt Skinner, Bart.

(Thomas Skinner & Co (Publishers) Ltd, London. Complete edition of two volumes, £7 net)

Volume I of the 1952 edition of this well known year-book – in its seventy-ninth year – has now been published. Certain information which, since 1949 when the work was first divided into two parts, has appeared in Volume II, is included in this volume. The transference of the sections on Financial Trusts, Land and Property, and Investment Trusts, has been made to equalize the size of the volumes.

The 1,845 pages of this volume contain particulars of the Iron and Steel Corporation, with a table of compensation values of securities of companies taken over, and a table of compensation values of gas companies' securities containing further compensation values not determined in time for inclusion in the 1951 year-book.

Volume II is to be published in September next and will contain the Commercial and Industrial, and the Mines sections. The work is an invaluable, if not indispensable work of reference for the professional as well as the commercial office.

SHORTER NOTICES

British Journal Photographic Almanac, 1952. (Henry Greenwood & Co Ltd, London. Board cover 5*s* net; cloth cover 7*s* 6*d* net.) Those accountants who find relaxation in photography will welcome the appearance of this annual book of reference. Once again it is packed with useful information concerning the latest apparatus and materials, formulae and instructions for photographic processes, and including, after a lapse of many years, a section giving the properties of the chief chemicals used. There is the usual pictorial supplement which maintains the high standard set up in previous years' supplements.

The A.B.C. of Income Tax Return Making, by S. C. H. Smith, late H.M. Senior Inspector of Taxes (Advertiser Press Ltd, Huddersfield. 8*s* post free.) A short text-book on income-tax which includes brief treatment of land tax, profits tax and the repealed excess profits tax. This new edition includes the provisions of the Finance Act, 1951.

Specimen Answers to the Questions Set at The Institute of Chartered Accountants' Final and Intermediate Examinations, November 1951. (Study Services Ltd, London. Intermediate 6*s* net, by post 6*s* 3*d*; Final 7*s* 6*d* net, by post 7*s* 9*d*.) The answers are accompanied by the appropriate questions and filed in convenient folders. Although the publishers emphasize that they are not the official answers, the student who works through the questions and finds that his answers tally with those given can face the examination with confidence.

Jordans' Income Tax Guide, 1951–52, Twenty-first Edition, by Charles W. Chivers. (Jordan & Sons Ltd, London. 2*s* net.) For the layman who wants to find out quickly what income-tax is all about this book could hardly be bettered. Just the kind of things he would be expected to be interested in are explained in clear and simple language. This is the kind of book to have on hand to give to layman friends who ask for an explanation of income-tax in a few words.

FINANCE AND COMMERCE

Stock markets are now left largely to their own devices. Trading has been reduced to limited dimensions. Outstanding feature has been enormous support for a £10 million issue by The Distillers Company in 5 per cent unsecured loan stock at par. Applicants received very small allotments and the price touched seven premium when dealings began on the Stock Exchange.

The Connaught Rooms

Many of our readers will have attended a company meeting, a social gathering or dinner, at *The Connaught Rooms* in London. The lease of the rooms is owned by a public company, Connaught Rooms Ltd, and those who know the rooms will find, we hope, something more than an accountant's interest in the company's accounts which we reprint this week.

The accounts present what the directors (among them Mr Michael Moore, F.C.A.) describe as a 'satisfactory result in view of the continued rise in costs with which we have had to contend'. The subsidiary has increased its profit and 'is a useful adjunct to the main business of the parent company' but requires considerable working capital and has not made a distribution of its profits.

A dividend of 100 per cent is being paid on the ordinary capital but the directors have decided not to pay the 10 per cent bonus 'solely on the grounds that the increased rate of profits tax has resulted in an increase of no less than £12,700 in the charge for that tax for 1951'.

We presume shareholders in the company know all about the business of the subsidiary but there is nothing in the accounts to show what it does.

Pest Control Shock

Holders of the ordinary capital of Pest Control Ltd have recently received a shock. There is no ordinary dividend for the year to September 30th, 1951. To appreciate the position one must go back a little to the marketing of the shares in April 1949. The company had been formed in the previous November to take over the business which now enjoys an international reputation for the control and the destruction of the weeds and the pests that plague the agriculturalist. The 5*s* shares came on the market under the best auspices at a shade over 8*s* and have been as high as 8*s* 10*d*.

A dividend of 7½ per cent was paid for the nine months to September 1949 followed by 10 per cent for 1950. The preliminary profits statement this year announcing the absence of dividend, drew attention to the company's capital needs. Consolidated net profit, subject to tax, was up from £88,634; to £90,540; but, the board stated, it was in the best interests of shareholders to carry forward the whole of the amount available. The order book had increased appreciably and the directors felt that the expansion should be financed as far as possible by the retention of profits.

Attention was also drawn to the high rate of distributed profits tax and to the uncertain effect of the excess profits levy. The shares changed hands down to 4*s* 2¼*d* after this announcement as compared with this year's best price of 6*s* 9*d*.

Three Weeks Later

Just on three weeks later came the full report and accounts showing a consolidated trading profit of £282,100 against £237,378. The results shown, however, were, it was stated, 'below expectations'. For this, two main reasons were given. In the first place, bad weather severely hampered work for the second year running. Secondly, with the rapid expansion of the business, 'it was hardly to be expected that all operations would prove profitable. In the light of experience gained, steps are being taken to eliminate these uneconomic factors'.

And then comes the vital news that ought to have been disclosed to shareholders long before. This disappointing profit figure, the chairman says, 'was all the more regrettable since it coincides with an increasingly difficult tax position.

'This factor, with other important considerations, has influenced your directors in their decision to recommend that no dividend be paid on the ordinary shares and that the balance of £52,130 be carried forward.

'For the tax year 1951–52 onwards,' the chairman continues, 'the company will cease to be assessed for income-tax on actual profits and will change over to "previous year basis". This means that in accordance with good accountancy practice, provision ought to be made for eighteen months' future taxation, since the profits of the company for the year ended September 30th, 1951, will be assessed to income-tax for the tax year ending April 5th, 1953.'

Making a Start

The chairman goes on to explain that a start has been made towards providing for future taxation by setting aside in the year to September 30th, 1951, approximately £14,000 towards the total amount of £53,500 required. But this means that if the accounts to September 30th, 1952, are to include full provision for income-tax, then the balance of £39,500 not yet provided must also be set aside out of that year's profits.

Money Market

Treasury bill applications on May 16th were further reduced by some £5½ million to £295,005,000. Tenders at £99 8*s* 1*d* received 70 per cent of requirements being the largest take-up under the new monetary policy. Average discount rate rose to £2 7*s* 8·07*d* per cent. This week's offer is reduced by £10 million to £220 million.

CONNAUGHT ROOMS LIMITED AND SUBSIDIARY COMPANY

Consolidated Balance Sheet, December 31st, 1951

1950 £	1950 £		£	£
		Issued Capital of Connaught Rooms Ltd		
		6,900 6 per cent Cumulative Preference Shares of £1 each,		
6,900		fully paid	6,900	
65,000		1,300,000 Ordinary Shares of 1s each, fully paid	65,000	
	71,900			71,900
		Capital Reserve		
	1,025	Excess Profits Tax Post-war Refund		1,025
		Revenue Reserves and Surplus		
81,102		General Reserve	96,102	
15,000		Dividend Equalization Reserve	15,000	
9,500		Investment Reserve	9,500	
23,356		Profit and Loss Account	18,022	
46,490		Future Income Tax	43,450	
	175,448			182,074
	248,373			254,999
		Current Liabilities		
57,199		Creditors and Accrued Charges	66,453	
77,725		Current Taxation	87,955	
		Proposed Final Ordinary Dividend for the year to December		
21,450		31st, 1951 (*less* Income Tax)	17,063	
	156,374			171,471
	£404,747			£426,470

Note. – There is a contingent liability for Uncalled Capital amounting to £700 in respect of one of the Company's Investments.

1950 £	1950 £		£	£
		Fixed Assets		
		Lease of 'The Connaught Rooms' (expiring February 7th, 1996)		
1		at book value at July 1st, 1948	1	
		Furniture, Fixtures, Fittings and Equipment, at cost or net book value at July 1st, 1948, *less* depreciation £73 on equipment of		
47,894		Subsidiary Company	47,988	
		(Replacements are charged against profits of Parent Company in lieu of depreciation)		
8,856		Expenditure upon Premises at cost	11,378	
660		Motor Vehicles at cost £3,427		
—		*Less* Depreciation 331	3,096	
	57,411			62,463
		Investments		
38,535		Quoted Investments at cost	36,890	
	(30,646)	(Market Value £29,509)		
6,185		Other Investments at book value	6,596	
	44,720			43,486
		Current Assets		
132,792		Stocks at or below cost	139,818	
59,874		Debtors and Prepayments *less* Provision for doubtful debts ..	74,880	
45,000		Tax Reserve Certificates	46,500	
44,634		Cash at Bankers and in hand	39,007	
	282,300			300,205
		Goodwill		
		Excess of Cost of Investment in Subsidiary Company over the		
	20,316	Net Tangible Assets at date of acquisition		20,316
	£404,747			£426,470

P. G. A. HARVEY
M. G. R. HARVEY } *Directors.*

Consolidated Profit and Loss Account for the year ended December 31st, 1951

1950 £	1950 £		£	£
	12,250	To Directors' Emoluments		13,686
	(1,250)	*Notes.* The above includes £1,250 in respect of Directors' Fees. A sum of £25 for Expenses of a director of the Subsidiary Company has been charged to Income Tax in the hands of the recipient.		
	1,500	„ Consultant's Fee paid to past director		1,500
	499	„ Audit Fees		499
	—	„ Depreciation		404
		„ Current Taxation:		
26,429		Profits Tax	39,115	
644		Income Tax	1,926	
	27,073			41,041
	44,629	„ Future Income Tax		43,531
	59,165	„ Balance, Profit, carried down		45,654
	£145,116			£146,315
	£			£
	1,200	To *Losses on Sales of Equipment*		—
	269	„ Losses on Sales of Investments		1,646
	15,000	„ Transfer to General Reserve		15,000
		„ Preference Dividends paid for the year to December 31st, 1951		
	228	(*less* tax)		217
		„ Ordinary Dividends:		
17,875		Interim Dividend of 50 per cent (*less* tax) paid during the year	17,062	
17,875		Proposed Final Dividend of 50 per cent (*less* tax)	17,063	
3,575		*Bonus Dividend of 10 per cent (less tax)*	—	
	39,325			34,125
		„ Balance carried to Balance Sheet:		
19,840		Connaught Rooms Ltd	13,029	
3,516		Subsidiary Company	4,993	
	23,356			18,022
	£79,378			£69,010

1950 £	1950 £		£	£
		By Profit on Trading and Rents Receivable:		
140,284		Connaught Rooms Ltd	140,751	
3,190		Subsidiary Company	3,805	
	143,474			144,556
	1,642	„ Interest and Dividends Receivable		1,759
	£145,116			£146,315
	£			£
	59,165	By Balance brought down		45,654
		„ Balance brought forward from 1950:		
17,858		Connaught Rooms Ltd	19,840	
2,355		Subsidiary Company	3,516	
	20,213			23,356
	£79,378			£69,010

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Rising Prices due to Inflation

SIR, – Referring to Mr Burton's letter on the subject of 'Rising prices due to inflation' in your issue of May 10th, 1952, the very last thing industry wants is a Board of Trade monetary purchasing power index or a retail price index. We are suffering from far too much Government interference as it is. Such suggestions only tend to create difficulties which do not at present exist.

No Board of Trade index could possibly be correctly applied to different articles or businesses, nor could it possibly be up to date. If we want any index we have one available and kept up to date every day and that is the 'free market rate' of sterling.

The value of sterling is not what we think or say it is, but what the world is prepared to pay for it.

Industry simply wants to retain its stock at its historic cost and allow for replacement of its wasting assets before arriving at a profit or loss figure.

Yours faithfully,

London, EC3. JOHN HALL.

Creditors' Voluntary Liquidation

SIR, – I refer to 'Liquidator's' problem in your issue of May 3rd, 1952.

I note that there was no contract in existence and no board minute authorizing the payment of any remuneration to the directors. I assume, therefore, that the director's only entitlement to payment for his services, apart from the doctrine of *quantum meruit* to which I refer below, was to participate in any remuneration which might be voted to the directors by the company under regulation 65 of Table A to the Companies Act, 1929.

It is, I submit, settled law that a director who has no duties except to attend meetings of the board, is not a 'servant' within the meaning of Section 319 of the Companies Act, 1948, and accordingly that such a person is not entitled to rank as a preferential creditor. A managing director would also appear to suffer from the same disqualification (*Hopkinson v. Newspaper Proprietary Syndicate* ([1900] 2 Ch. 349)). But a director, if employed in another capacity may, I submit, be a clerk or servant by virtue of such other employment (*Re Beeton & Co* ([1913] 2 Ch. 279)).

Assuming that the director in question was employed in such a capacity as to be entitled to be treated as a servant for the purposes of the section, then I consider that he would be entitled to remuneration for his services during the period of fourteen months under the doctrine of *quantum meruit*. In this connexion, it was held in *Bell & Darenth Valley Railway Co* ([1856] 1 H. & N. 305) that a provision that the remuneration of an officer was to be determined only in general meeting did not prevent him bringing an action for a *quantum meruit*.

On the footing that the *quantum meruit* doctrine is applicable, the director would be entitled to reasonable remuneration for his services. It is impossible, without knowing the nature of the services actually rendered by the director or the degree of skill exercised by him, to express an opinion about the sum which would be reasonable in the circumstances, but it may well be that £10 per week would be the proper figure. Should this be the case, then I consider that the liquidator should, if he is satisfied that the director was a 'servant' admit him as a preferential creditor for four months at £10 per week.

Yours truly,

London, EC2. JOHN W. BANKES.

Lord Latham's Presidential Address

SIR, – *The Accountant* is 'the recognized weekly organ for accountancy throughout the world' and accountants rely confidently upon you, sir, to give an accurate picture of the 'goings-on' in the profession. Your correspondent Mr J. D. Bailey (May 10th, 1952) should realize that it is a vital duty of *The Accountant* to publish official pronouncements of the councils of the profession, for his inference is unmerited.

Mr Bailey says that Lord Latham's remarks implying that industry should be allowed to retain profits for replacement purposes 'is not the point at issue for accountants'; but Mr Bailey should be reminded of the official views expressed and of the Chartered president's remarks that indeed among members of the council there are differences of opinion on the subject of accounting in relation to changes in the purchasing power of money, when at least he should agree that accountants are primarily concerned in the issue.

And Mr Bailey is not correct in saying that 'the last word' on this topic is contained in the Institute's Recommendation XII. If anything this was one of the *first* words and Lord Latham is not disputing the validity of that recommendation, as I read him; in fact, Lord Latham is forcibly seeking to promote its conclusion.

In your editorial of March 29th, 1952, you indicated that it is perhaps not the function of a professional body to enter into the controversial question of special tax reliefs but that a professional body can properly show how that object, if decided upon, is to be achieved. The Association's address, and the evidence submitted to the Royal Commission on the Taxation of Profits and Income by the accountancy bodies are real efforts to assist those responsible for the conduct and management of businesses, and without such submissions it is

difficult to foresee how Parliament can be expected to mitigate the consequences of rising prices by changes in the tax law.

Mr C. W. Boyce, C.B.E., F.C.A., referred in his presidential address to The Institute of Chartered Accountants to Head 21, in which it was stated that if it were decided to give some measure of relief to businesses in respect of the financial effects of rises in prices, the method the Institute would favour for doing so would be to give relief on retained profits.

The Institute and the Association have intimated readiness to discuss the problem with kindred bodies and the profession will go to the Congress on that harmonious note.

Yours faithfully,
COLIN A. PERRY, A.A.C.C.A.

Streatham, SW16.

P.S. – With regard to Mr Bailey's remarks about the fixed asset replacement price indices, I trust he did not miss the lively and refreshing letter by Mr Jeffrey English published in the same issue as his own letter!

Integration of Government and Industrial Accounting

SIR, – In 'North American Commentary – XXXII', in your issue of April 5th, 1952, Professor Kenneth F. Byrd, discussing an article in the January issue of *Accounting Review*, Menasha, Wisconsin, says under the sub-heading 'Accounting for the Atomic Energy Commission':

> 'Professor Black states that the A.E.C. is in the forefront of this most important accounting development of the present time – the integration of modern industrial and government accounting and budgeting.'

This integration has long been the accepted practice in this country.

Those who are familiar with the volumes published annually by H.M.S.O. of the trading accounts and balance sheets of the trading or commercial services conducted by Government departments will know this, but others may not.

It will be recalled that one of the main conclusions of the Crick Committee on the Form of Government Accounts was that the preparation and publication of trading accounts should be continued and developed.

Yours faithfully,
NAMWEN.

Road Hauliers' Compensation for Cessation

SIR, – I have had experience in a number of cases of nationalization of road haulage undertakings including composite businesses similar to the type mentioned by Messrs Crew, Turnbull & Co in their letter in the issue of May 3rd.

Where no separate records have been kept any settlement must, of course, be in the nature of a compromise, but if at all possible some attempt should be made to construct an estimated haulage profit and loss account.

As a general guide I find that the proportion of the main expenses to haulage turnover (after deducting sublet work and the profit on sublet work – usually 10 per cent) is as follows:

Drivers' wages and National Insurance	20% – 25%
Drivers' expenses	2% – 3%
Petrol and oil..	10% – 13%
Tyres and tubes	5% – 7%
The total of this group averaging	35% – 50%
Licences and vehicle insurance ..	5% – 7%
Maintenance of fleet and depreciation (based on cost of replacement)	12% – 20%

These percentages are based on the years 1947 to 1950.

The main factors influencing the expense proportion are (*a*) type of goods carried; (*b*) proportion of long-distance work; (*c*) degree to which return loads are obtained; (*d*) type of vehicles – diesel or petrol; (*e*) whether repairs are done by own staff or an outside concern.

The average haulier earns a net profit of 15 per cent to 20 per cent after allowing a reasonable charge for management, but I have met with net profits of 30 per cent and even more.

Yours faithfully,
P. G. L.

Joint Venture: Division of Profits

SIR, – I have read with interest the correspondence following the letter from 'Puzzled Calculator' in your issue of April 12th. I think that readers may be interested in a problem of a similar nature of which I have personal knowledge.

Companies A. and B. enter into a joint venture. The agreement provides that the profits shall be divided –

Up to £10,000 – equally;
Over £10,000 – 2/3rds to A., 1/3rd to B.

The agreement further provides that the manager of the venture shall be entitled to a commission equal to 5 per cent of B.'s share of the profit, after charging his commission, and that furthermore the manager's commission shall be taken into account in arriving at the division of profit between A. and B.

The profits amounted to £25,273 3*s* 11*d*. Would any reader care to give his opinion as to the share of A., B. and the manager?

Yours faithfully,
A.C.A.

Deeds of Covenant in Favour of Charities

SIR, – I find it a little surprising that 'C.A.' (May 17th) should express such concern over the fact that refunds of tax may be obtained 'before the tax has actually been paid'.

There is nothing in the laws or practice of income-tax to prevent this, and treating each tax year as a separate accounting period any such notional losses on interest on such funds is far too small to cause any official worry.

P.A.Y.E. is but a system of collecting 'on account' through the tax year instalments of the total current liability to income-tax. It makes no pretence of being

A MEMBER OF THE THREE BANKS GROUP

GLYN, MILLS & CO.

Glyn, Mills & Co. began in 1753 as a private banking house. In spite of steady growth to world-wide influence, its underlying characteristics have not departed. The personal touch is still there in each transaction whether large or small. London is the centre of operation. Glyns is a member of the Three Banks Group.

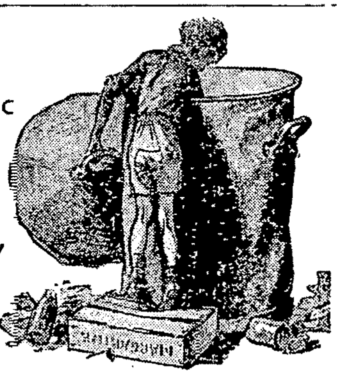
ROYAL BANK OF SCOTLAND
Founded 1727. Edinburgh, London & branches.
GLYN, MILLS & CO.
Founded 1753. London.
WILLIAMS DEACON'S BANK LTD.
Founded 1771. Manchester, London & branches.

Total resources over £350,000,000

'They need

MORE

than pity



No amount of welfare legislation can ever completely solve the problem of children hurt by ill-treatment or neglect. There must be an independent, experienced organisation whose trained workers can protect those who cannot defend themselves—and who give the patient advice and assistance so often needed to rebuild the family life. The National Society for the Prevention of Cruelty to Children depends on voluntary contributions to continue this work. No surer way could be found of helping the helpless, and bringing happiness to those who need it most.

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an exact system, but the small under- and over-payments that may arise are seldom of a sufficient magnitude to cause concern. When such deeds of covenant are payable by one whose tax is collected under P.A.Y.E. the Revenue estimate the earnings of that employee during the forthcoming year, and restrict the allowances given in the coding by an amount which, having regard to the highest reduced rate payable, and restriction of earned income relief, will result in sufficient extra tax being collected to charge the amount of the annual payment under the deed (marginal income) to tax at standard rate.

It occurs to me that 'C.A.' has possibly not encountered a case where tax may be refunded which is never liable for payment. Such a case arises in the first year of a company, where the profit, as adjusted, is covered by capital allowances. The company is liable to pay no tax in such cases, but if the disallowable expenses (including depreciation) are less than the capital allowances, a dividend paid 'net' may be the subject of a claim for personal allowances, by the recipient. There is never any case of dividends being the subject of an assessment under Section 170, Income Tax Act, 1952 (the old Rule 21).

Yours faithfully,

Hove, Sussex. FREDK. A. J. COULDERY.

Managing Director's Commission

SIR, – May I suggest to your correspondent, Mr Leonard Hughes (May 10th issue), that he appears to have gone wrong in not appreciating the significance of the word 'net' in the expression 'the first £10,000 of net profit'. This must represent such greater sum as after deduction of the appropriate commission leaves a clear sum of £10,000.

Yours faithfully,

R. S.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in The *Annotated Tax Cases.*

McDougal's Trustees *v.* C.I.R.

In the Court of Session

March 26th, 1952

(Before THE LORD JUSTICE CLERK (Lord THOMSON), Lord MACKAY and Lord PATRICK)

Estate duty – Deduction – Sale of property by deceased – Loan to deceased by purchaser – Whether consideration for debt consisted of property derived from the deceased – Finance Act, 1894, *Section* 7 – *Finance Act,* 1939, *Section* 31.

In 1937 the deceased bought some landed property from some trustees, and had it conveyed by the trustees to the 'Lord Provost, Magistrates and Council of the City of Edinburgh and their successors in office as representing the community of said City'. The conveyance contained the stipulation that the property was to be used for all time as a public park and pleasure or recreation ground for the benefit of the citizens of the City of Edinburgh and for no other purpose. The document also contained a provision to the effect that if the disponees should contravene or fail to implement this and the other conditions of the conveyance the disposition and all that may have followed thereon was to become null and void and the property was to revert to the trustees.

The price that the deceased paid to the trustees was £11,000, and the deceased obtained a loan from the City of £11,300 to cover the price and the incidental expenses. Interest was charged on the loan, but it was agreed that no interest should be paid during the deceased's lifetime, and that the loan and the accrued interest should be repaid on his death, less the net amount of rents derived from the property during his lifetime. As security for repayment of the loan and interest the deceased assigned certain stocks.

The deceased's executors included the value of the stocks at his death as an asset in the inventory of his estate, and claimed to deduct £13,364 7*s* 8*d*, which was the net sum repayable to the City of Edinburgh. The Inland Revenue contended that the transaction was caught by Section 31 (1) of the Finance Act, 1939, in that the consideration given by the City for the debt was property derived from the deceased, namely, the landed property in question.

Held, that this contention was correct, and that, therefore, no deduction of the £13,364 7*s* 8*d* was permissible.

In re Fuller's Settlement

In the High Court of Justice (Chancery Division)

March 7th, 1952

(Before Mr Justice WYNN-PARRY)

Estate duty – Beneficial interest arising on survivorship – Contingent reversionary interest – Whether an interest in expectancy – Finance Act, 1894, *Sections* 1, 2 (1) (*d*), 22 (1) (*j*) – *Finance Act,* 1934, *Section* 28.

By a settlement made in 1930 the trustees were directed to stand possessed of the settled securities upon trust to accumulate the income thereof and invest the same during the settlor's life. After his death the trustees were to stand possessed of the fund and the income thereof in trust for a named person absolutely, if he should then be living, but if he should have predeceased the settlor, then upon the same trusts as had earlier been declared in favour of another person. The settlor was survived by the first-named person.

It was agreed between the trustees and the Inland

Revenue that Section 1 of the Finance Act, 1894, did not apply to the case but that Section 2 (1) (*d*) did apply, and the dispute was as to how the estate duty was to be calculated. It was contended on behalf of the Inland Revenue that the estate duty was to be calculated on the full value of the trust fund in question, while the trustees argued that the calculation should have regard to a beneficial interest in the accumulation fund to which the first-named person was entitled immediately before the date of the settlor's death, which it was contended, was not an interest in expectancy within Section 28 of the Finance Act, 1934.

Held, that the first-named person had an interest in expectancy in the trust fund before the date of the settlor's death, and that that interest had to be disregarded under Section 28 of the Finance Act, 1934, in calculating the value of the accumulations fund, which, under Section 2 (1) (*d*) of the Finance Act, 1894, had to be deemed to have passed to him on the death of the settlor.

In re Rose

In the Court of Appeal
April 4th, 1952
(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS and Lord Justice MORRIS)

Estate duty – Transfer inter vivos *– Date of transfer – Transfer of shares in company before material date – Transfer not registered until afterwards – Customs and Inland Revenue Act*, 1881, *Section* 38 (2) (*a*) *– Customs and Inland Revenue Act*, 1889, *Section* 11 *– Finance Act*, 1894, *Section* 2 (1) (*c*) *– Finance Act*, 1946, *Section* 47.

On March 30th, 1943, the deceased executed two transfers of shares in a private company, and by a settlement of the same date he declared trusts of the second block of shares. The company's articles of association gave full power to the directors, without assigning any reason, to decline to register any transfer of shares in the company. The deceased was the governing director of the company, with virtually absolute powers over its administration. The transfers were held, from the date of their execution, by the secretary of the company, but they were not registered until June 30th, 1943.

The Crown contended that as the registration of the transfers did not take place until after April 10th, 1943, there had not been a complete disposition of the shares before that date, and that, therefore, the period of time for rendering the dispositions immune from estate duty on the deceased's death had not elapsed.

Held (affirming the judgment of Mr Justice Roxburgh), that the beneficial interests in the shares were transferred at the dates when the respective transfers were executed and that, therefore, the dispositions took place at a time which rendered them exempt from estate duty.

Conway *v*. Wingate

In the Court of Appeal
March 5th, 1952
(Before Lord Justice SINGLETON, Lord Justice BIRKETT and Lord Justice MORRIS)

Sur-tax – Covenant to discharge outgoing partner's liability for income-tax – Whether inclusive of sur-tax – Finance (1909–10) *Act*, 1910, *Section* 66 *– Finance Act*, 1927, *Section* 38.

The plaintiff and the defendants were in partnership, and in 1949 an agreement was made between the plaintiff and the other two partners for the assignment of the plaintiff's share in the partnership business to one of the defendants. The defendants jointly and severally covenanted with the plaintiff to pay and discharge all the debts and liabilities of the partnership business as at the date of the agreement 'and all liability (including that of the vendor personally) for income-tax . . . of and relating to the said partnership down to the date of these presents. . . .'

The plaintiff brought this action against the continuing partners for a declaration that they were under an obligation to discharge his liability to sur-tax in respect of his share of the partnership income down to the date of the agreement of 1949.

Held, that sur-tax was not income-tax 'of and relating to the partnership', as it was a liability of an individual partner and not of the firm, and that, therefore, the defendants were not liable to the plaintiff in the manner claimed.

Fenwick *v*. C.I.R.

In the High Court of Justice (Chancery Division)
March 7th, 1952
(Before Mr Justice DONOVAN)

Special contribution – Income attributable to a period of years – Relief when received in 1947–48 *– Two dividends received in that year – Method of giving relief – Finance Act*, 1927, *Sections* 34, 36 *– Finance Act*, 1948, *Section* 61.

In 1947–48 the appellant received two dividends from a company, namely, a dividend of £1,554 on May 31st, 1947, and a dividend of £388 10*s* 0*d* on September 1st, 1947. The first dividend was declared as a final dividend of 12 per cent for the calendar year 1946, and the second dividend was declared as an interim dividend of 3 per cent for the calendar year 1947. The appellant applied for relief under Section 61 of the Finance Act, 1948. The Special Commissioners refused the application on the ground that it was necessary to compare the two dividends in question with the dividends forming the income of some other year which was to be taken by the Special Commissioners as representative of the 'income which would be attributable to a period of one full year' mentioned in the section. This view was rejected in *Fenwick v. C.I.R.* (29 A.T.C. 357), and the stated case was remitted to the Special Commissioners.

The Special Commissioners, in their further

consideration of the case, selected the two calendar years 1946 and 1947 for the purpose of arriving at a 'full year's income' within the last part of Section 61 (1), and they found that the dividends paid in the calendar year 1946 were equal to the dividends paid in 1947–48. The dividends paid in the calendar year 1947 amounted to less than those paid in 1947–48, but as the total of the two dividends paid in that fiscal year was no greater than the total of the dividends paid in the calendar year 1946, they again refused the application for relief.

Held, that the 'full year's income' mentioned in the section had to be ascertained by apportioning the total of the two dividends on a day-to-day basis over the period for which they were paid, and that only that part which fell into 1947–48 (together with any part of any subsequent dividend which fell therein) could be included in the appellant's investment income for purposes of the special contribution.

C.I.R. *v.* Gordon

In the House of Lords
March 25th, 1952
(Before Lord NORMAND, Lord MORTON OF HENRYTON, Lord TUCKER and Lord COHEN)

Income-tax – Foreign possession – Bank accounts in London and at branch abroad – Overdraft on London account – Transfer to account at branch abroad – Overdraft cleared by income from foreign possession – Whether remittance of income to United Kingdom – Income Tax Act, 1918, Schedule D, Case 5, Rules 1, 2.

The respondent was a partner in a firm carrying on business in Ceylon. From 1940 until the end of the war he was resident in the United Kingdom because owing to war conditions he was unable to return to Ceylon. He had a bank account with the Colombo branch of the National Bank of India Ltd, which has its head office in London, and the Colombo account was fed partly by transfers of the respondent's shares of his firm's profits. These payments into the Colombo account were made in rupees.

While he was resident in the United Kingdom the respondent opened an account with the London office of the same bank, and made an arrangement with the bank whereby, without giving any security, he was allowed to overdraw his account at the London office and portions of the overdraft were transferred to the Colombo branch. That branch debited the respondent's account with the rupee equivalent of the sums so transferred, and the respondent caused rupees to be paid into his account at the Colombo branch to meet the debits. Later it was arranged that whenever the debit balance on the London account amounted to £500, it should be transferred to the debit of the Colombo account, and debit balances were transferred from time to time accordingly. In particular the Colombo account was debited with the rupee equivalent of £1,180 in September 1942, £3,200 in August 1943, and £600 in November 1943. On each occasion the effect was to cause the Colombo account to be overdrawn, and the overdrafts were extinguished soon afterwards by payments into the Colombo account of sums in rupees from the respondent's firm. Interest was allowed by the bank on credit balances, and was charged on debit balances, in each of the accounts.

It was contended by the Inland Revenue that the arrangement between the respondent and the bank was one for the remittance of money to the United Kingdom from Colombo, and that *Hall v. Marians* (14 A.T.C. 424) was distinguishable in that no loans abroad had been created, the proceeds of which could be set against the overdrafts in this country. The Special Commissioners decided that they were unable to distinguish the case from *Hall v. Marians* (*supra*) and that no sums had been remitted to the respondent in this country.

Held (affirming the decision of the Court of Session), (1) that there were no remittances to the United Kingdom, except as to three specific and admitted sums, and that no liability to United Kingdom tax otherwise arose; (2) that the case be remitted to the Court of Session with a direction to make any necessary adjustments to give effect to admissions made by the respondent that transfers of £1,428 12*s* 8*d*, £1,999 12*s* 5*d* and £600 from Colombo to London were taxable remittances.

Kempster *v.* McKenzie

In the High Court of Justice (Chancery Division)
April 23rd, 1952
(Before Mr Justice DANCKWERTS)

Income-tax – Machinery and plant – Initial allowance – Annual allowance – Car used partly for private purposes – Whether allowance to be restricted – Income Tax Act, 1945, Sections 15, 16, 57 – Finance Act, 1949, Section 21, Schedule VI, paragraph 1.

The appellant was a dairy farmer in Shropshire and had a farm of 298 acres. During the accounting period to March 31st, 1949, he purchased a new 14-horse-power Alvis car for £1,284 9*s* 6*d*. The car was used as to one-seventh for private purposes. Previously, the appellant had a 17-horse-power Vauxhall car, which had been purchased second-hand in 1937. That car was used for all farm work, including running over fields and hauling a trailer, whereas the Alvis car was used only for journeys to neighbouring market towns and was not employed otherwise than on roads.

On a claim for initial and annual allowances being made under Part II of the Income Tax Act, 1945, the General Commissioners, besides making the deduction of one-seventh in respect of the private use of the new car, deducted from the purchase price another one-seventh for what was called 'personal choice', which appeared to mean that the appellant had purchased this particular kind of car partly for reasons other than farming.

Held, that there was no evidence which justified the making of this deduction of one-seventh.

Recknell *v.* C.I.R.

In the High Court of Justice (Chancery Division)
April 24th, 1952
(Before Mr Justice DANCKWERTS)

Special Contribution – Employees' shares – Liability to surrender shares on cesser of employment – Whether income from shares investment income – Income Tax Act, 1918, *Section* 14 (3) – *Finance Act,* 1948, *Sections* 47, 48, 49.

The appellant was employed by a company, certain shares wherein were issued to employees as an incentive to work hard in the company's interests. A larger proportion of the profits of the company were paid on these shares, as compared with other shares, and the voting rights attached to them constituted a preponderance of the total voting power in the company. The Executive Committee of the company had the right to require such shares to be given up when the employee in question ceased to be employed by the company, but in certain cases employees had been allowed to continue to hold their shares after they had retired. The appellant held 1,500 of these shares, and during 1947–48 he received £450 in respect of them.

It was contended on behalf of the appellant that the dividends received by him on the shares in question were a part of his emoluments from the company, and were earned income, and that therefore they were not investment income for the purpose of the special contribution.

Held, that this contention was correct.

Stewart's Executors *v.* C.I.R.

In the High Court of Justice (Chancery Division)
April 22nd, 1952
(Before Mr Justice DANCKWERTS)

Sur-tax – Dividends – Apportionment – Apportionment to date of death – Income of residuary estate – Apportionment Act, 1870, *Sections* 2, 5 – *Finance Act,* 1938, *Sections* 31, 32 *and* 35.

The deceased taxpayer was the residuary legatee under the will of his wife, and she had been entitled during her life to the income of half of the estate of her former husband. The wife died on May 23rd, 1943, and after her death dividends were received by the trustees of the estate in which she had this life interest; the sum of £4,659 was paid by the trustees of that estate to the executors of the taxpayer's wife as being the apportioned part of the dividends that had accrued during the lifetime of his wife.

The Inland Revenue contended that the £4,659 was income for sur-tax purposes by virtue of Sections 31 and 32 of the Finance Act, 1938, and that the sum represented payments in respect of the taxpayer's deceased wife's life interest and were income of the wife's executors, and therefore of the husband, the deceased taxpayer.

Held, that these contentions were correct.

In re Parker

In the High Court of Justice (Chancery Division)
March 13th, 1952
(Before Mr Justice WYNN-PARRY)

Estate duty – Deduction – Special contribution – Non-exercise of right to recovery – Whether amount of contribution deductible – Finance Act, 1894, *Section* 7 – *Finance Act,* 1948, *Section* 56.

The testator died on December 3rd, 1948, and before his death steps were being taken to assess him to special contribution under Part V of the Finance Act, 1948. Before the assessment was made he died, and the assessment was made on his executor on February 15th, 1949. A part of the investment income included in the assessment was received by the testator's wife from two trusts. The Public Trustee did not exercise the right of recovery given by Section 56 of the Finance Act, 1948, against the trustees of those trusts, and at the date of the hearing of this summons the time for doing so had expired.

Held, that no deduction could be made in ascertaining the principal value of the testator's estate in respect of the amount of special contribution paid by the Public Trustee.

Crompton *v.* Reynolds & Gibson

In the House of Lords
March 26th, 1952
(Before Lord NORMAND, Lord MORTON OF HENRYTON, Lord REID, Lord TUCKER and Lord COHEN)

Income-tax – Debt owed to firm – Change in partnership – Balance of debt taken over at valuation – Whether surplus on recovery was a taxable receipt – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 11 (1) – *Finance Act,* 1926, *Section* 32 (1).

This case in the High Court is reported at 29 A.T.C. 59, and in the Court of Appeal at 29 A.T.C. 282.

In 1930 firm No. 1 was owed £200,000 for goods supplied. In 1933 there was a change in the firm (firm No. 2), but the proviso to Rule 11 (1) of Cases I and II of Schedule D was not invoked. On October 1st, 1933, there was a further change (firm No. 3), and the proviso was applied. At that date the balance of the debt was £174,600, against which a reserve of £50,000 had been created. Later there was a further change in the firm (firm No. 4), but the proviso was not applied.

Firm No. 4 completed the recovery of the debt in full, and thus made a surplus of £50,000. The Special Commissioners found that neither firm No. 3 nor firm No. 4 traded in book debts, but that the debt remained, while in their ownership, an ordinary trading debt.

Held (affirming the judgment of the Court of Appeal), that the debt became a capital asset when it was purchased by firm No. 3, and that the £174,600 was not a trade receipt for tax purposes.

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS

SIXTY-SEVENTH ANNUAL GENERAL MEETING

The sixty-seventh annual general meeting of the Society of Incorporated Accountants and Auditors was held at Incorporated Accountants' Hall, Victoria Embankment, London, SW1, last Wednesday, May 21st, 1952. The chair was taken by the President, Mr C. Percy Barrowcliff, F.S.A.A., who delivered the following address:

PRESIDENTIAL ADDRESS

It is not fitting that today's proceedings should begin without reference to the sudden and tragic death of His Majesty King George VI on February 6th. The King was greatly loved and respected; his high sense of duty, his steadfast courage, his manly virtues and the simple dignity of his life will ever remain a source of inspiration.

Our heartfelt sympathy went out to Her Majesty The Queen, to Queen Elizabeth the Queen Mother, to Queen Mary and to the other members of the Royal Family. With humble duty we extend our devoted loyalty to Her Majesty The Queen, who we pray may long be spared to reign in peace, happiness and prosperity.

Report and Accounts

The Report of the Council for 1951[1] reflects another year of considerable activity. I do not propose to traverse all the ground covered in the report, but will confine my remarks to certain supplementary observations.

Incorporated Accountants' Hall

We all rejoice that this, the sixty-seventh annual meeting of the Society, is being held in our own Hall. Members will share my relief and joy that henceforth we can hope to conduct all the proceedings of the Society at the Hall of which we are so justifiably proud.

Council

Three valued colleagues have resigned from membership of the Council during the past year – Mr R. M. Branson, Mr Walter Holman and Mr T. Harold Platts. We are deeply grateful to them for their outstanding services to the Society.

The conferment of Honorary Membership of the Society upon Mr Holman gave great pleasure to his many friends in the profession. It is a high honour, but one which he so richly deserved.

Sixth International Congress on Accounting

The Sixth International Congress on Accounting is to be held in London next month and the Council looks forward with keen pleasure to reciprocating hospitality and renewing friendships with members of the profession from many countries.

In September last the Congress Council honoured the Society by inviting the Council to nominate an Incorporated Accountant for election as Vice-President of the Congress. I am deeply sensitive of the trust imposed in me by my colleagues on the Council and on the Congress Council in appointing me to this office.

[1] See *The Accountant*, dated May 3rd, 1952.

Regulation of the Profession

I am able to report that a communication signed by the Presidents of the bodies represented on the Co-ordinating Committee is being sent to the President of the Board of Trade, suggesting that Section 161 of the Companies Act, 1948, should be amended to provide:

(1) that exempt private companies should be required to have their accounts audited by a member of a body of accountants recognized under the Act;
(2) that the accountancy bodies recognized under the Act should be formally specified in the Act itself; furthermore, that additions to and deletions from the list of accountancy bodies should not be made except by a regulation requiring affirmative resolution by both Houses of Parliament;
(3) that there should be saving clauses to protect all persons in practice on an appointed day and that similarly the rights of those who have obtained equivalent qualifications outside the United Kingdom should be safeguarded.

Directors' Emoluments

Copies of the recommendation of the Council to members of the Society have been circulated with the report. Both sides of the question are succinctly expressed in the following extract taken from a commentary published on the Council's recommendation in *The Times* of April 3rd, 1952:

> 'No doubt many directors will continue to feel that Section 198 requires far more detail of these "other emoluments" than necessary. But, so long as this is the law, there are obvious practical advantages in standardizing the way in which the information is made available. Auditors, it may well be imagined, have found their role of statutory inquisitors under this section particularly distasteful.'

That exactly expresses my own point of view on this question.

Treasury Scale of Fees

In conjunction with the other accountancy bodies an approach is being made to the Treasury for a revision of the scale of fees payable to practising accountants who perform services for Government departments. The existing scale came into operation in January 1947.

Educational Developments

The Society has a vital interest in the working of the examination for the General Certificate of Education, and the impact of this examination on the Society's regulations is constantly under review. The recent announcement of the Minister of Education in the House of Commons that heads of schools would have discretion to enter pupils for the examination at an age earlier than 16 under certain conditions will be generally welcomed.

Hitherto the Preliminary examination has been a

necessary part of the Society's examination system, since young persons not in attendance at school were not eligible to take the School Certificate examination. The Council understands that the General Certificate examinations, which have replaced the old School and Higher Schools Certificate examinations, are available alike to those who are at school and to those who are not. This naturally strengthens the case of those who advocate the abolition of the Society's Preliminary examination, and the suggestion is receiving the careful consideration of the Council.

Business as a Continuing Enterprise

A much better understanding of the full implications of the business structure appears to be necessary today. In so many ways we act as if we were dealing with something of strictly limited duration – something which is purely a short-term affair. We do not consistently regard business as a continuing enterprise nor approach it as an entity to be preserved.

I would quote but two instances of this limited view. First, the accounting approach to the implications of changing money value is still influenced by the old convention of original costs. Such a basis regards only the past and does not concern itself with future survival.

The other instance I would refer to as illustrating this limited view of business is our present fiscal policy. Regardless of future requirements for maintenance, stabilization and consolidation, taxation is imposed on the very funds so urgently required for future survival.

I submit that we need to reconsider seriously our attitude to the business structure. Its continuance is vital to the nation's economy – and I am sure very few people will disagree with that submission. Then why not treat it as such in matters which really affect its continuance? Of course there are special cases where an enterprise is started with a strictly limited objective, but this does not apply to the vast majority of business undertakings. Experience over the years has shown quite clearly that businesses were founded with the underlying idea of being continuing enterprises and most have succeeded in that objective. Even complete or partial changes in proprietorship have failed to disturb this inherent principle of business continuity. I think we should all agree that the successful business structure built up in this country has operated on the principle of continuity and that its success is in no small measure due to that factor. I suggest that there is much here to challenge our thoughts and I hope to cause a revision of our attitude to business enterprise.

Some will no doubt question the validity of my desire for a change in the principles of accounting measurement on the grounds that business has in fact continued, and continued most successfully, up till now. My answer is that two factors have emerged in recent years which have altered the whole picture. First, the somewhat rapid and apparently semi-permanent change in money value. The old basis of using original costs made little difference when prices were stable and renewal costs were practically the same as original costs. Secondly, the crushing weight of taxation, which has withdrawn from business funds previously ploughed back to ensure continuity.

These factors, I submit, have changed the whole position and it is vitally necessary for us all to see where we stand. Maintenance of business as a continuing enterprise must, I suggest, be looked upon as an operating cost. Let me deal in a little more detail with these two factors.

Fluctuating Price Level

Even as far back as 1944 this matter had been under review by members of the Research Committee of the Society. Last year, following the work of the Research Committee, the Council took action by appointing a committee to review the whole question and, if possible, to evolve, in consultation with the leading representatives of outside interests, some workable recommendations. I welcome, therefore, the announcement by the President of The Institute of Chartered Accountants in England and Wales that the Institute proposes to consult other professional bodies on this subject immediately after the International Congress on Accounting in June. The considerable progress already made by our committee will, I am sure, enable us to make a valuable contribution to the joint discussions.

At District Society dinners during the winter I have stated my own views on this problem, views which I know are shared by several of my colleagues on the Council. In measuring the real profits of an undertaking, depreciation of fixed assets should be charged on the basis of the current cost, and similarly stocks should be considered in the same light because the fund so invested is virtually a fixed asset. Unless this is done in a period of rising prices, part of the capital of the undertaking is being included as profit. It is difficult to understand how such a profit, including, as it does, part of the capital resources of the business, can be represented as a 'true and fair view' of the operating profit.

Much is made of the difficulties in applying the foregoing principles and I am not going to deny there are difficulties. But what I would say is that we should address ourselves to a consideration of the serious effects of our existing conventions. I suggest these effects are much more serious than the difficulties to be overcome. Moreover, practical ways and means have been carefully thought out, which I feel should satisfactorily resolve these difficulties. If we could only get firmly into our minds that we are dealing with a continuing enterprise, then the changed money value could not be ignored in dealing with real assets because of the necessity for their preservation.

Taxation

Now we come to the second factor. There can hardly be two opinions on the question of the harm being done to the country's long-term interests by the present crushing weight of taxation. If we are satisfied that the business structure is vital to the country and that it must be looked upon as continuing, then I hope we shall press home to those in authority the requirement that the incidence of taxation should have regard to that fact. Otherwise continuity of business enterprise may not only be prejudiced – which is the position today – but may even be made impossible.

In passing may I answer the obvious retort that with our present national commitments it is impossible to reduce taxation? I do not subscribe to the view that our annual expenditure cannot be reduced. I suggest that the administration has become top-heavy and is much too costly – more costly than the country can afford. Efficiency can be achieved without extravagance in organization and personnel. In fact, it would probably be much more easily achieved with a restricted

organization. There is need for a ruthless and independent inquiry to get greater economy and efficiency in the various ramifications of national administration.

(*a*) *Income-tax and sur-tax* at existing rates are destroying initiative and are taking away the vital element of incentive. I should like to see the time-lag in sur-tax assessments removed as this causes much hardship and difficulty.

(*b*) *Profits tax* is unfair in its incidence and in my view is unsound in principle. It needs radical amendment to remove the penalty on dividend distribution, which after all is only a return for the use of capital.

(*c*) *Excess profits levy:* The Council of the Society advised against the excess profits levy both on the ground of principle and because of the negligible amount of tax likely to be collected. After reading the provisions of the measure we must all be impressed by the needless complications which must surely arise in its administration. It gives every appearance of being another unfortunate harassment to business enterprise.

(*d*) *Estate duty.* – I join with many others in deploring the crushing weight of death duties. Those of us in practice know full well the deep concern felt generally about the hardships occasioned by them. It is time the country awoke to the fact that it cannot go on indefinitely using up its capital for current expenditure, because it is not inconceivable that a point might be reached where savings did not justify these utilizations of capital. Moreover, the spirit of thrift – the will to save – which contributed so much to the country's financial strength in the past, is rapidly disappearing – disappearing because it cannot function. If we completely lose this spirit of thrift – as we certainly appear to be doing – what will be the result? I suggest there is only one answer – a diminishing standard of living.

The strange thing is that the amount collected from death duties is out of all proportion to the harm which is done. The estimated revenue in 1952–53 from death duties is £175 million out of a total anticipated revenue of over £4,500 million; that is, about 4 per cent.

I want to emphasize particularly the unfair incidence of death duties upon many private businesses. It is true to say that, with the other forms of severe taxation which they have to bear, many medium-sized family businesses will be gradually eliminated by the excessive death duty claims. These businesses in the past have played a very great part in Britain's success. They developed individuality, initiative, enterprise and skill of outstanding quality and their elimination would be a grievous blow to British industry. I would claim that such family businesses are a vital part of the country's economy and should be preserved as a national asset.

Do we realize the serious growth in the death duties? First introduced in 1894, the maximum rate was 8 per cent. Today the maximum rate is 80 per cent. I agree that only affects estates of £1 million and over, but even an estate of £70,000 would pay 40 per cent.

We have also to bear in mind the vast difference in the rate of income-tax, then 8*d* in the pound and now 9*s* 6*d* in the pound, with no sur-tax in 1894 and a sur-tax rate now graded up to 10*s* in the pound. A startling change in a period of less than sixty years, which shows the impossibility of providing funds out of income to meet death duties.

I am indebted to a memorandum sent by the Association of British Chambers of Commerce to the Chancellor of the Exchequer in February of this year for pointing out that an estate of £100,000 at today's rates of death duties would dwindle down to £19,272 after five deaths. On the other hand, an estate of £50,000 at today's rates would be reduced to £16,718 after five deaths. This means that in that period the £100,000 estate has been reduced to a figure only £2,554 more than an estate of half the size. In other words, the second half of the £100,000, i.e. £50,000, has attracted a duty of £47,446. There can hardly be two opinions upon the unfairness of such a burden.

On top of all this we find that special difficulties confront the family business – difficulties created by Parliament in an endeavour to prevent undue avoidance of death duties. In many cases these provisions are working harshly and very much against the best interests of the country. Where a company comes within Section 55 of the Finance Act, 1940, its shares and debentures fall to be valued in accordance with the net intrinsic value of the assets. The possible market value of the shares has no bearing on the value, which is surely rather an absurd state of affairs. If the physical valuation of the assets shows a higher figure than a going concern valuation, then the former is adopted, which can mean and has in fact meant the absolute sale of the assets and the break-up of the business to realize the necessary funds to pay the death duties. If business is a continuing enterprise it is essential in the nation's interest that it should be so treated for death duties on a going concern basis.

Here are a few instances of shares valued on an investment and going concern basis and the related balance sheet figures:

	Unit	*Net assets*	*Market quotation*
John Crossley & Sons Ltd ..	£1	73*s* 9*d*	41*s* 10*d*
W. J. Brooks & Sons Ltd ..	5*s*	19*s* 7*d*	13*s* 1*d*
Thomas Blackburn & Sons Ltd	5*s*	13*s* 3*d*	7*s* 10*d*
Clan Lines Steamers Ltd ..	£1	364*s*	120*s*
Albert E. Reed & Co Ltd ..	£1	124*s* 6*d*	48*s* 9*d*
Millars Timber & Trading Co Ltd	4*s*	17*s*	7*s*

There can, as will be seen in these cases, be a sharp difference between the market value and the break-up value. But in cases affected by Section 55 the break-up value it has got to be, regardless of the fate of the business and, of course, quite regardless of the fact that such a value is purely artificial as it could not apply to a continuing business.

I should like to say a word about the statistical investigation undertaken by the Board of Inland Revenue on estate duty and family businesses; their report was presented by the Chancellor of the Exchequer to Parliament in July 1951. That report generally submitted that no real harm was being done to private business by the payment of death duties. I join issue with that conclusion. The inquiry proceeded mainly by examining how far business assets were required to pay death duties which could not be paid out of the private estate.

The first submission I make is that many business men made sacrifices to try and provide for the death duties by insurance and other means in order to avoid disintegration of the business. Therefore the arbitrary division between trade assets and private estate adopted by the Board of Inland Revenue is misleading and really does not give the true picture. Secondly, I submit that there are many cases where it is absolutely essential to have a private estate apart from the business to provide for dependants, and therefore it is not a proper view to assume that the private estate

is free to discharge all the death duties. I would also point out the following statement of the Board in their concluding paragraph: '. . . it may be possible to raise a loan from the company itself; or in the case of an individual business or partnership the business may have sufficient liquid resources out of which the duty could be paid.' I suggest that these statements show a complete lack of appreciation of the need for business preservation. Apparently it matters little what the capital requirements of the business may be to ensure its continuity.

But over and above all this I submit that whatever merit the Board of Inland Revenue may have felt in their case and in the figures which they produce to substantiate it, the whole case has been wrecked on the increased price level since 1948, to which year their figures relate. It is probably true that the balance sheets concerned were in many cases based on the 1947 level of prices. The wholesale price level in 1947 was 256 (*Statist*/Sauerbeck index converted to 1938=100), whereas in March 1952 it was 427, an increase of 67 per cent on 1947. Hence capital requirements for stocks and other assets have increased considerably since 1947. The Institute of Bankers showed by their recent inquiry how the liquid resources of business undertakings have been unable to cope with these substantial increases and resort has been had to bank overdrafts to meet the position. The position is vastly different from 1947–48, and therefore, I submit, on that ground alone the report of the Board of Inland Revenue cannot be applied to the conditions of today.

I ask for a reconsideration of the implications of death duties with particular reference to:

(*a*) the unduly high rates for all ranges of estates, which are harmful to the country and create considerable hardship, and which, moreover, are indefensible and inconsistent with current taxation;

(*b*) the invidious treatment of estates involving private businesses affected by Section 55 of the Finance Act, 1940. The principle of business continuity should be recognized and valuations based on that principle.

Conclusion

I extend my warm thanks to the Vice-President, Mr Bertram Nelson, and to my other colleagues on the Council for the generous support they have given me during the past year. I desire to pay a special tribute to the immediate Past President, Mr Stuart Allen, who has indeed been a true guide, philosopher and friend. No words of mine can adequately express the debt I owe to him; I have never called in vain for his advice and help.

Finally, I acknowledge with gratitude the loyal and zealous work of all members of the staff.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

President's Address at the Eighty-second Annual Meeting

At the eighty-second annual general meeting of the Liverpool Society of Chartered Accountants, held on Monday, May 12th, the President, Mr K. G. M. Harding, B.A., F.C.A., presided over a company of sixty-five members and said in the course of his address:

PRESIDENT'S ADDRESS

There has been a net increase in membership, including those attached to our Chester and North Wales Branch, of twenty-seven during the year. There is, however, still a large number of chartered accountants in this area who are not members of our Society, and I now appeal to all of you to induce any of your colleagues either in practice, in employment of practising members, or in commerce and industry, to join us, so that the Society may be fully representative of all chartered accountants in the area.

Articled Clerks' Training and Education

The arrangements for their lectures and courses are in the capable hands of our Education Joint Committee, and we are all very much indebted to the members of that committee, and in particular to the chairman, Mr Cecil Taylor, and also to those of our members who have been willing to spare the time to give the lecture on Saturday mornings, and at the Burton Manor courses.

With regard to Burton Manor, I do hope that all principals will encourage their articled clerks to attend at least one of the courses before each examination.

Our Society was responsible for organizing the course, held in connexion with the Manchester Society, at the beginning of April. There was a full enrolment of fifty for the Intermediate course, but the numbers were much lower for the Final course. If these courses are to continue to be held every six months, it is essential that the October course, which will be organized from Manchester, should be well supported.

I would like, on your behalf, to thank Mr Stanley Morris, Junr., and Mr McCarthy and Mr Holroyd who have acted as Joint Hon Secretaries. Many members may not realize the great amount of work involved, and we are indeed grateful to them.

Taxation and Research Committee

We are very grateful to those of our members who form the Regional T. & R. Committee. I know their work is much appreciated by the main T. & R. Committee in London. This Society has continued to be represented on the main Committee by Mr C. P. Turner and Mr E. N. Macdonald. We are, I am sure you will agree, extremely fortunate in our representatives, and we are most grateful to them for their hard work. It has been a very strenuous year for them. I would particularly like to thank Mr Macdonald who was one of five on the Sub-committee dealing with the major drafting work in connexion with the memoranda for submission to the Royal Commission on the Taxation of Profits and Income.

It always seems to be so wrong that so much of our time and thought, as practising accountants, is spent in dealing with the yearly increasing complications of our taxation laws, instead of being able to devote ourselves to more constructive work for our clients.

Now the prospect of excess profits levy, which will involve extra computations, additional to those required for profits tax and income-tax, places a further burden upon accountants and upon the Inspectors of Taxes, who are already hard pressed in dealing with their existing work. Introduced with the stated object of taking up the profits due to rearmament, it is doubtful how far this will be effective, and in any case it puts a premium on extravagance,

and is bound to have a damaging effect on enterprise. Inequalities are bound to arise between one company and another.

I think there is good ground for saying that the 'taxation outlook', if I may call it that, has been in fact largely responsible for the controversy over the question of providing for replacement values. The problem would not be so great if so much of the profits of industry were not paid out as taxation.

ANNUAL REPORT

The eighty-second annual report shows that the Society's total membership at December 31st, 1951, numbered 467, of which 62 were members of the Chester and North Wales branch.

Three lecture meetings and a mock tax appeal, arranged jointly with the Association of Her Majesty's Inspectors of Taxes, were held during the year.

The local discussion group for younger practising members of the Society which commenced to meet at the end of 1950, continued to hold regular meetings when points of topical interest and practical difficulty were discussed. Two other similar groups were formed during the year.

The Society continued, in conjunction with the Incorporated Accountants' District Society of Liverpool, to supply consultants every fortnight to advise on income-tax matters at the Citizens' Advice Bureau.

The annual dinner, held at *The Adelphi Hotel*, Liverpool, on December 7th, 1951, was attended by 198 members, guests and articled clerks.

The annual golf competition was held in fine, though windy, weather at the Royal Liverpool Golf Club on June 14th, and the Society's Cup and President's Prize were won by Mr K. H. Mackenzie.

Officers and Committee for 1952-53

The new officers and committee for 1952–53 elected at a meeting of the Committee on May 14th, 1952, are as follows:

President: Mr G. N. Fullagar, F.C.A.
Vice-President: Mr W. P. Scowcroft, A.C.A.
Hon. Treasurer: Mr E. T. Denton, B.A., F.C.A.
Hon. Secretary: Mr T. A. Macfarlane, B.A., A.C.A.

The following are the other members of the Committee:

Messrs J. F. Allan, F.C.A., H. Duerden, B.COM., A.C.A., F. Hack, F.C.A., K. G. M. Harding, B.A., F.C.A., W. A. J. Parkinson, F.C.A., C. J. Peyton, A.C.A., S. B. Smith, F.C.A., C. C. Taylor, F.C.A., G. M. W. West, F.C.A., and *ex officio*, the following members of the Council of the Institute, Messrs W. R. MacGregor, F.C.A., G. F. Saunders, F.C.A., and A. D. Walker, F.C.A.

CHESTER AND NORTH WALES BRANCH

The report of the Chester and North Wales Branch for 1951, appended to the Society's report, shows that at December 31st, 1951, membership totalled 68.

Three general meetings held during the year – two in Chester and one at Llandudno – were well attended.

At the annual meeting of the Branch held at Bolland's Restaurant, Chester, on March 21st last, Mr J. Ellis Evans, T.D., F.C.A., was appointed chairman, Mr A. K. Tunnock, M.A., A.C.A., Vice-Chairman, and Mr Norman Johnson, F.C.A., and Mr Frank Hack, F.C.A., were re-elected Hon. Treasurer and Hon. Secretary respectively for 1952–53.

A Chester and North Wales Branch Students' Association was formed in 1951 and Mr R. T. Smith, F.C.A., was elected chairman.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on May 7th, 1952, who completed their Fellowship or Membership before May 20th, 1952.

Associates elected Fellows

Bean, William Muirton; 1927, A.C.A.; 503 Park West, Marble Arch, London, W2.

Ford, Roger Henry; 1946, A.C.A.; (McCabe & Ford), Granada House, Gabriel's Hill, Maidstone, and at Ashford and Cranbrook.

Griffith, Eric Charles; 1935, A.C.A.; (*Powell & Griffith) and (Griffith & Co), 11A St Albans Road, Watford, and (J. S. James & Co), 16 Chequer Street, St Albans.

Hand, Wilfrid Arthur; 1938, A.C.A.; (*Smallfield, Rawlins & Co), Candlewick House, 116–126 Cannon Street, London, EC4.

Hewitt, Martin Bromley, M.A.; 1947, A.C.A.; (Whitfield & Co), Martins Bank Chambers, Park Row, Leeds, 1, and at Bradford.

Holcroft, John Geoffrey; 1933, A.C.A.; (F. Hunter, Gregory & Lord), Irwell Terrace, Bacup.

Hunter, William Thomas, M.B.E.; 1937, A.C.A.; (Day, Smith & Hunter), Star House, Maidstone, and at North Harrow.

Hutchinson, William Hudson; 1922, A.C.A.; Commercial Union Buildings, 47 Pilgrim Street, Newcastle upon Tyne, 1.

Kyle, William Christopher; 1933, A.C.A.; Lonsdale Chambers, 15A Lonsdale Street, Carlisle, and at Maryport.

Methold, Reginald Clifford; 1947, A.C.A.; (Carpenter, Box & Co), Liverpool Chambers, and Goring Hall Chambers, Goring Road, Worthing, and at Lancing.

Potter, Philip Sydney; 1932, A.C.A.; (Roe, Potter & Brown), 14–16 Westgate Chambers, Commercial Street, Newport, Mon, and at Cardiff.

Reynolds, George; 1935, A.C.A.; (*A. Jones & Co), 25 Station Road, Willesden Junction, Middlesex.

Sharp, David Buckley, M.A.; 1937, A.C.A.; (Black, Geoghegan & Till), 67 Watling Street, London, EC4, and at Guernsey.

Sutcliffe, Samuel; 1935, A.C.A.; (Sutcliffe & Riley), Fountain Chambers, Fountain Street, Halifax.

Thomas, John Emyr; 1940, A.C.A.; (Fogg, Tatlow, Thomas & Jones), 22 Trinity Square, Llandudno, and at Bangor and Llangefni.

Thubron, Samuel Appleton, B.COM.; 1932, A.C.A.; (*Grimes, Son & Thubron), 3 Saville Street, South Shields.

Whittaker, Alan; 1946, A.C.A.; (Rawlings & Wilkinson), 55 John Street, Sunderland.

Worms, Fred Simon; 1944, A.C.A.; (*Simon Worms & Finck), 62–64 Brook Street, London, W1, and at Hayes.

Not in England or Wales

Denton, Harold; 1932, A.C.A.; Kirsten's Building, Mare Street (P.O. Box 47), Pietersburg, N. Transvaal, South Africa.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Underwood, William James; 1929, A.C.A.; (*Pulbrook, Wright & Underwood), Manica House, Manica Road (P.O. Box 62), Salisbury, S. Rhodesia, and at Bulawayo and Umtali.

Admitted as Associates
(Not in Practice)

McCarthy, David Harold; with Haskew, Twist & Co, 3 Cherry Street, Birmingham, 2.
Smith, Geoffrey Rae, B.A.; with *Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.

Disciplinary Committee

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on April 2nd, 1952.

A formal complaint was preferred by the Investigation Committee of the Council to the Disciplinary Committee that a member of the Institute had been guilty of an act or default discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the Royal Charter, in that he permitted and/or failed to take proper steps to prevent the publication in a certain periodical of an article which constituted an advertisement of himself in his capacity as an accountant, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and the Committee ordered that the member in question be reprimanded, but in view of special circumstances the Committee decided to omit his name from the publication of the Finding and Decision.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee that Rowell Hartley Bell, F.C.A., had been guilty of an act or default discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the Royal Charter in that (1) despite repeated requests made to him during the year 1951 he failed to hand over to a firm of chartered accountants accounts and papers belonging to a certain person required by the firm to enable them in their professional capacity to complete the accounts of the said person; and (2) he failed to reply or to take any action in response to communications addressed to him by the Institute on three dates in November and December 1951, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Rowell Hartley Bell, F.C.A., had been proved both under headings (1) and (2), and the Committee ordered that Rowell Hartley Bell, F.C.A., of 59 Station Road, Clacton-on-Sea, Essex, be reprimanded.

Personal

MESSRS COOPER BROTHERS & Co, Chartered Accountants, announce that their office in Birmingham has been moved to 38 Bennetts Hill, Birmingham, 2. The telephone number, Central 2175-6, is unaltered.

MESSRS ERIC C. SAGE & Co, Chartered Accountants, of 127 High Street, Rhyl, North Wales, announce that they have recently taken into partnership Mr G. L. WILLIAMS, A.C.A., who has been associated with the firm for some years. The style of the firm will remain unchanged.

MESSRS R. P. HEYWOOD, BLYTHE & Co, Chartered Accountants, of Cooper's Building, Church Street, Liverpool, 1, announce with regret that Mr RICHARD P. HEYWOOD, A.C.A., died on May 12th. The practice will continue to be carried on by the surviving partner Mr FREDERICK J. BLYTHE, A.C.A., from the same address and under the same style.

MESSRS GIBSON HARRIS & Co, Chartered Accountants, of Baltic House, 27 Leadenhall Street, London, EC3, announce with regret the death, on May 12th, of their senior partner, Mr JAMES GIBSON HARRIS, F.C.A.

The Sheriff of Bristol

Distinguished Appointment for Chartered Accountant

Mr Stanley W. Cornwell, F.C.A., senior partner in the firm of Curtis, Jenkins, Cornwell & Co, Chartered Accountants, of Bristol and London, and a member of the Council of The Institute of Chartered Accountants in England and Wales, was appointed Sheriff of Bristol last Tuesday. He is the first chartered accountant to be accorded this distinction.

Bristol was the first provincial city in Britain to have its own sheriff. On August 8th, 1373, the capital of the West was created a county borough and one John Viel became the first holder of the office. Mr Cornwell now continues the line which has been unbroken through the centuries.

The word 'sheriff' derives from the Reeve or King's officer of a shire. Appointed yearly, he is the local representative of the reigning monarch, with various administrative and judicial responsibilities. From a decree by Henry VII in 1499, Bristol had two sheriffs who also acted as bailiffs each year until 1835. With the Lord Mayor, they were empowered to commit prisoners to gaol, to superintend it and appoint the gaoler, and they were the overseers of Bridewell, now the city police headquarters. Under the Municipal Corporations Act of 1835, the number of sheriffs was reduced to one.

The social duties that fall upon a sheriff in Bristol these days are considerable, quite apart from the round of entertaining – though this feature has, naturally, lessened in recent years.

The Assizes

Probably the most exacting of his tasks comes with the assizes which are held three times during his term of office. They take between three and four weeks of his time in the year.

Each morning, the sheriff, dressed in velvet or in uniform, has to attend on the judges in their lodgings and proceed with them to the Courts to be greeted by the traditional fanfare of trumpets. In the Court he hands to the judge official authorization for the

assize to begin. He sits in the sheriff's box, which is next to the judge's seat, where he remains throughout the criminal cases. He must be there when the Court adjourns and reassembles, and he must escort the judges back to their lodgings.

After the lord mayor and the recorder, the sheriff is the third citizen of this great city.

Mr Cornwell has just relinquished his term of office as President of the Bristol and West of England Society of Chartered Accountants, having been honorary secretary and treasurer from 1920 to 1934. Readers will recall that he was President of the Society's Conference Committee during the twentieth autumnal meeting of the Institute held in Torquay in October 1951.[1] An Old Cliftonian, Mr Cornwell is a past president of the Bristol Chamber of Commerce; he is on the Council of the University of Bristol and is a member of Bristol Rotary Club. His chief recreation is golf.

Professional Notes

The board of directors of The Forestal Land, Timber and Railways Co Ltd, announce that Mr Gerard d'Erlanger, C.B.E., A.C.A., has been appointed chairman of the company, and that Mr Ralph Darby, C.A., at present director and manager, has been appointed additional managing director.

Mr S. Harold Gillett, M.C., F.C.A., a member of the Council of the Institute, and an alderman of the City of London has been re-elected treasurer of the London Chamber of Commerce for the ensuing year. Mr Gillett was recently elected President of The Chartered Accountant Students' Society of London.

Mr L. W. Coxon, F.C.W.A., F.C.C.S., M.I.I.A., lately manager of the financial and office management division, British Institute of Management, is now group financial controller of H. W. Carter & Co Ltd and subsidiaries, The Royal Forest Factory, Coleford, Gloucestershire, and at London, Bristol, Birkenhead and Edinburgh.

Obituary

JAMES GIBSON HARRIS, F.C.A.

It is with regret that we record the death, on May 12th, of Mr James Gibson Harris, F.C.A., senior partner in the firm of Gibson Harris & Co, Chartered Accountants, of London.

Mr Harris, who was 77, was articled to his father, Mr James Harris, in 1892, and was admitted an Associate of the Institute in 1897. He subsequently joined his father and brother in practice under the style of James Harris, Sons & Co, and was elected a Fellow of the Institute in 1905.

[1] *The Accountant*, October 20th, 1951.

Elected to the Council of the Institute in 1920 he served on the Examination Committee from 1920 to 1951, the year of his retirement from the Council, and on the Finance Committee, of which he was chairman at one time, from 1927 to 1951.

Mr Harris was president of the Chartered Accountants' Dining Club in 1947–48 and at one time a member of the Chartered Accountants' Lodge and Chapter, of which he was a founder-member. He was Master of the Worshipful Company of Haberdashers in 1944–45.

A memorial service was held last Wednesday at St James's, Garlick Hythe, Garlick Hill, London, EC4.

In Parliament

EMPLOYED MARRIED WOMEN: TAX RELIEFS

Dr KING asked the Chancellor of the Exchequer what he estimates would be the extra amount collected in income-tax if the exemption from tax of the first £100 earned by a married woman were abolished.

Mr BOYD-CARPENTER: The married woman in employment receives an additional allowance of up to £120 and also separate reduced rate reliefs. These together amount to £60 million, but if they were withdrawn the Exchequer would not benefit to this extent as many married women might stop working.

Hansard, May 13th, 1952. Written Answers, Col. 102.

Companies (Liquidation) Branch of the Board of Trade

CHANGE OF ADDRESS

The Companies (Liquidation) Branch of the Board of Trade is moving from Lytham St Annes, Lancashire, on June 5th, 1952. Correspondence after that date should be addressed to the Branch at Lacon House, Theobald's Road, London, WC1.

The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants

SCARBOROUGH AND DISTRICT GROUP

A Scarborough and District Group of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants has now been formed and at an inaugural meeting of the group held at *The Pavilion Hotel*, Scarborough, on Wednesday, April 23rd, 1952, the following officers were elected:

Chairman: Mr E. T. Coulson, F.C.A.

Hon. Secretary and Treasurer: Mr M. J. F. Willcox, A.C.A., 38 Queen Street, Scarborough.

Committee: Messrs F. C. B. Ashby, A.C.A., J. A. Bryden, A.C.A., E. J. Robson, A.C.A., and one other (to be appointed).

Chartered Accountants' Lodge No. 3162

At the installation meeting held at *The Piccadilly Hotel*, Regent Street, W1, on May 14th, 1952, W. Bro. George William Hunt, was installed in the chair by W. Bro. C. M. Strachan, O.B.E., P.P.G.D. (Yorks N. & E.R.).

The officers appointed were: W. Bro. C. M. Strachan, O.B.E., P.P.G.D. (Yorks N. & E.R.), *I.P.M.*; V.W. Bro. H. A. R. J. Wilson P.G.Treas., P.P.G.W. (Middx.), *S.W.*; W. Bro. W. Robinson, L.G.R., *J.W.*; W. Bro. H. M. Hawthorne, L.G.R., P.M., *Treasurer*; V.W. Bro. Geoffrey Bostock, P.G.Treas., P.M., *Secretary*; W. Bro. A. Granville White, P.A.G.D.C., L.G.R., P.M., *D.C.*; Bro. F. Clive de Paula, T.D., *S.D.*; W. Bro. S. T. Milner, *J.D.*; W. Bro. D. Percy Jones, P.M., *Asst. D.C.*; W. Bro. A. A. B. Yeatman, P.G.Std., P.M., *Organist*; W. Bro. M. C. Rhodes, *I.G.*; Bro. G. Carew-Jones, M.B.E., *Steward*; Bro. A. W. John, *Steward*; W. Bro. R. H. Truelove, *Tyler*.

Amongst those present were: R.W. Bro. Sir F. Newson-Smith, Bt., P.J.G.W ; W. Bro. Wallace Hepburn, A.G.D.C.; W. Bro. G. E. Oswick, P.A.G.D.C.; W. Bro. F. C. T. Lane, P.G.Std.; W. Bro. G. A. Raines, P.P.G.R. (Yorks N. & E.R.); W. Bro. E. D. Basden, M.C., L.G.R.; W. Bro. W. G. Campbell, L.G.R.; W. Bro. G. A. Warley; W. Bro. W. E. D. Smedley (W.M., *Semper Vigilans* Lodge, Chartered Secretaries); W. Bro. Harold F. Strachan (W.M., Kingston Lodge); W. Bro. H. Palmer (W.M., United Empire Lodge); and W. Bro. R. D. Shipman (W.M., Centre Lodge).

The Institute of Municipal Treasurers and Accountants

VISIT TO PORT OF LONDON

A party of members of The Institute of Municipal Treasurers and Accountants visited the Port of London on May 16th. The party was received at Tower Pier by Admiral Sir Alan Hotham and other members of the Authority and embarked in the P.L.A. s.y. *St Katharine* for a cruise down-river and through the Royal Docks system.

Annotated Tax Cases

Part 1 of Volume XXXI of the *Annotated Tax Cases*, edited by Roy E. Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Bank voor Handel en Scheepvaart v. Custodian of Enemy Property* (K.B.D.); *Higgs v. Olivier* (C.A.); *Star Cinemas (London) Ltd and Majestic (Derby) Ltd v. C.I.R.* (C.A.); *Rankine v. C.I.R.* (C.S.); *Faulconbridge v. National Employers' Mutual General Insurance Association Ltd* (Ch.D.); *Orchard Wine and Spirit Co v. Loynes* (Ch.D.); *G. Deacon & Sons v. C.I.R.* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

International Hospital Congress

TO BE HELD IN LONDON NEXT YEAR

The Eighth International Hospital Congress will take place in London – the first to be held in Great Britain – from May 25th to 30th, 1953. The Congress is being held under the auspices of the International Hospital Federation of which the Hon. Secretary and Treasurer is Capt. J. E. Stone, C.B.E., M.C., F.S.A.A., 10 Old Jewry, London, EC2.

Association Football

The final of the Birmingham inter-firm knock-out competition was played on April 30th, when Agar, Bates, Neal & Co (the holders) drew with Carter & Co, each side scoring one goal. Each firm will hold the shield for six months as a re-play could not be arranged. Nine teams entered for this, the second, annual competition.

Recent Publications

THE INCOME TAX ACT, 1952, Annotated, by Miss H. G. S. Plunkett, Barrister-at-Law, assisted by P. W. E. Taylor, Barrister-at-Law, and A. L. Price, Barrister-at-Law. 10×6. 30s net. Sweet & Maxwell Ltd, London; Stevens & Sons Ltd, London, and W. Green & Son, Edinburgh.

THE STOCK EXCHANGE OFFICIAL YEAR-BOOK, Vol. I, clii+1,845 pp. 10×8. Price for Volumes I and II £7 net, by post (Inland) £7 2s 6d. Thomas Skinner & Co (Publishers) Ltd, London.

THE PURPOSE AND PRACTICE OF MOTION STUDY, by Anne G. Shaw, M.A. xii + 311. 9½ × 6. 50s net. Harlequin Press Co Ltd, Manchester and London.

LEGAL NOTE BOOK FOR ACCOUNTANCY AND SECRETARIAL EXAMINEES, by The 'B.C.A.' Tutors. xv + 200 pp. 8½ × 5½. 13s net. Textbooks Limited, London.

PRINCIPLES OF AUDITING WITH TYPICAL QUESTIONS AND ANSWERS, by E. Miles Taylor, F.C.A., F.S.A.A., and Charles E. Perry, F.C.A., F.S.A.A., 12th edition revised by A. C. Simmonds, F.S.A.A. x + 375 pp. 8½ × 5½. 15s net. Textbooks Ltd, London.

ENGLISH GRAMMAR, by C. Whitaker-Wilson. 93 pp. 7½×5. 2s 6d net. W. & G. Foyle Ltd, London.

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CONTENTS

RECOMMENDATION XV

Accounting in Relation to Changes in the Purchasing Power of Money

DURING the past two decades a sharp clash of opinions has developed, with ever-increasing intensity, regarding this vital problem. On the one hand there are the economists, the industrialists, and an increasing section of the accountancy profession, who point out the limitations of the significance of accounts prepared on the generally accepted basis, known as historical cost, and put forward alternative principles and procedures designed to overcome these limitations.

On the other hand, an important section of accountants, although disturbed by the difficulties created in industry by the decline in the purchasing power of money, see great difficulties and complexities in the way of the adoption of a new conception of profit. Those of this way of thinking are extremely doubtful whether any of the alternatives, so far put forward, are practicable and possible of general application throughout industry and commerce, and indeed there are many who gravely doubt the validity of the basic premise upon which the new conceptions of profit are founded.

Both schools of thought have recently become very vocal, and this is evidenced in our correspondence columns, but, so far as we can judge, there are no signs of agreement being reached upon this vitally important and fundamental issue.

It is most opportune, and helpful to its members, that the Council of The Institute of Chartered Accountants in England and Wales has issued, under the heading, 'Accounting in relation to changes in the purchasing power of money', No. XV of its series of 'Recommendations on Accounting Principles'; this is reprinted in another part of this issue.

In this recommendation the Council makes clear to members of the Institute, (*a*) the Council's views upon this vexed problem, (*b*) what are the salient factors in connexion with each of the alternatives so far put forward, and (*c*) why the Council is not able to accept any of these alternatives.

The Council has also given notice that it proposes, after the forthcoming International Congress on Accounting, to invite other professional bodies to join with it in further study of this subject.

The Recommendation under consideration will be of the utmost value to all further discussions of this vitally important problem. It is, in our opinion, the most profound and meticulously thought out recommendation that the Council has so far issued.

All within and without the accountancy profession, whatever their views may be upon this matter, will acknowledge the great debt owed to the Council for this invaluable contribution to these important discussions.

The Council examines fully all of the various alternative conceptions of profit that have been put forward, and thus clearly reveals the many complications and difficulties that arise in connexion with each one of them. No doubt all of these points will be dealt with in the future discussions, and naturally, before any alternative conception of profit could be accepted, it would be essential to clear all of the legal, accounting, economic and social issues involved.

The Council strongly emphasizes, in Recommendation XV, the importance of the economic and social issues (see page 581). These vital factors need close examination as they lie at the root of this problem; it is therefore these that we propose to discuss briefly.

It will be agreed that changes in the purchasing power of money are not limited to the industrial and commercial world. All sections of the community are affected, and must be considered. In the case of an individual industrial company, in addition to the equity shareholders, the following are all directly affected: the holders of prior share capital, debenture-holders, trade creditors, the holders of rights under service agreements and profit sharing schemes, rights to incomes which are dependent on or vary with profits.

The important question arises as to 'whether there should be legal recognition of changes in the purchasing power of money so as to adjust legal rights which have been expressed in terms of money'.

If, in arriving at industrial profits, for taxation purposes, full provision for replacement costs were allowed in respect of fixed assets and inventories, would that be fair and equitable to the other sections of the community – would not the inevitable result be, in times of inflated prices, that the taxation of industrial profits, in the aggregate, would be reduced by a vast amount, at the expense, presumably, of other sections of the community?

If provisions as above were charged against industrial profits but were not allowed by the Revenue for taxation purposes, then, if full provisions were made, might it not result in an excessive burden upon profits, during periods of inflated prices?

If a new conception of profits were adopted which made provision for the replacement cost basis as a legal charge against profits, then would not all industrial, commercial and similar undertakings be trading with an unlimited liability in this regard, as it is impossible to forecast the future replacement cost of industrial assets? The effects of inflation in Germany after World War I are an alarming example and warning of the possibilities and serious nature of this risk. No board of a single-ship company, we submit, would dream of accepting the insurance risks in respect of the company's own ship. Might it not be argued that an industrial company, having a high proportion of its capital invested in fixed assets and inventories, could not, over the long term, safely carry the replacement cost risk regarding its assets? The future might well prove that the company had assumed an impossible burden, and that the consequences, to many of those interested in the company, had been most disastrous. It seems to us that the problem needs to be closely examined from this point of view.

In this connexion the Council raises the question of

> 'The effect on the raising of capital for business undertakings if such capital is to be raised on the basis that before dividends can be paid the purchasing power of the capital employed in the business must be maintained, as distinct from the existing position under which it is a matter of policy for directors to consider to what extent monetary profits are to be regarded as available for distribution and to what extent it is desirable to retain profits to meet the future requirements of the business'.

It would seem to us that a most important decision that must be made is whether amounts set aside out of earnings, towards the increased capital required for the replacement of assets, are to be regarded as legal charges to profits or as appropriations of profits. If it were agreed that such items were to be deemed to be appropriations of available profits, then a great measure of agreement would have been reached as between the two schools of thought; most of the real difficulties would have disappeared. If, however, this point is not conceded, then it is difficult to see how the new conceptions of profit could be made effective without a previous alteration of the law.

Thoughts upon this vexed problem prompt the reflection that perhaps these discussions have been too concentrated upon finding palliatives for the ailments that are infecting industry and efforts have not been directed towards finding the root cause of the disease. Permanent cure is possible only by attacking the root cause.

Inflation itself, we suggest, is the disease that is afflicting the whole economic life of the nation, and one of the symptoms is the erosion of industrial capital. If we were able to eradicate that fell disease our present troubles and difficulties would be ended. The root cause, therefore, lies deep within the economy of the nation; the cure can be effected only by the Government, and the remedies must be most drastic and painful; it must be a case of a major operation. Alterations in our conception of profit are a palliative but they are far removed from the root cause.

The adverse effects of inflation have always been one of the inevitable risks of business, by reason of the fact that there must be a 'time lag' from the time of making preparations for manufacturing, producing or merchanting to the time of completion of the subsequent sale. The 'time lag' may be a matter of days or years, according to the nature of the transaction, the equipment used and other factors. The longer the 'time lag' the greater the risk, is a fact well known to every trader.

Those are the facts from which there is no escape. The current value concept may be right in economic theory but it seems far removed from the facts of trading.

The Council of the Institute has made a strong case for further consideration of this highly controversial problem. In the meantime it recommends that the effects of material changes in the purchasing power of money should be made clear, by means of the directors' report or otherwise. The Council also encourages further experimentation

'with methods of measuring the effects of changes in the purchasing power of money'.

EXCESS PROFITS LEVY

AS we announced in a leading article last week, MR BUTLER's excess profits lily has undergone a thorough gilding in the Committee Stage of the Finance Bill, and it may well be that further amendments will be introduced at the Report Stage. When the original provisions first saw the light of day we expressed the hope that common sense would break out and that the levy would be simplified. In the event it has been made vastly more complicated, not for the purpose of increasing its yield but rather to reduce its incidence. The original intention was to raise £200 million from it in a full year, at the same time reducing profits tax by some £100 million, giving a net gain to the Revenue of £100 million. The new concessions in the levy are estimated, by some process of haruspication not revealed, to cost some £50 million, while the original profits tax concessions are to be withdrawn to the extent of some £32 million by increasing the rate for distributed profit from the projected 17½ per cent net to 22½ per cent net. The net yield from all these complicated changes as now adjusted, is expected to be some £75 million to £80 million in a full year; practically nothing this year. It is well that the cost of administering the new tax has also been said to be nothing.

Perhaps the most striking of the concessions is the increase in the minimum standard from £2,000 to £5,000. In moving the relevant amendment to clause 35 on May 22nd, the FINANCIAL SECRETARY TO THE TREASURY said that there were about 200,000 companies in all, the vast majority being small ones. Under the original proposals, between 45,000 and 50,000 of these would have been liable to the levy, but now only 25,000 would be liable. Taking into account the allowance for directors' remuneration, the one-man company can make £7,500 a year without paying levy, even though its profit in the standard period could be measured in hundreds or less. On the other hand, a large company with numerous members, to any one of whom £7,500 a year might be just a pipe dream, may have to pay a large amount of its profits in levy. If, as has been repeated so often, the levy rests on a moral ground, it is strange that nearly half the offenders are to be pardoned at a stroke, presumably only because of the difficulty of administering the levy. The capacity of the Revenue to deal with the tax

cannot differ very much now from what it was when the Bill was first published. One is driven to the conclusion that the other concessions now introduced are so complicated, and will need so much working out, that there will not be enough man-power to deal with all the cases, so that the lower half of them are to be absolved.

Perhaps the next most important amendment is the introduction of the right to choose any two of the three years 1947, 1948 and 1949 as a standard, instead of taking the average of all three. The plea that 1950 ought also to be included was rejected for the very cogent reason that its adoption would prevent the levy from bringing in any revenue at all. However, if a company can prove that the main part of its business was, on January 1st, 1952, carried on in territory which at any time during the years 1942 to 1945 inclusive, was 'under Japanese occupation', it can elect to take the average profit for the two years 1949 and 1950.

The option to take 10 per cent of the paid-up share capital as at December 31st, 1949, has been withdrawn and replaced by four alternative options. Instead of December 31st, 1949, the company can choose either December 31st, 1946, or December 31st, 1951, taking 10 per cent of the paid-up share capital on either of those dates. Alternatively it can take 8 per cent of its capital employed on either of those two dates. This last innovation involves the introduction of still another schedule into the Bill for the purpose of laying down detailed rules for the computation of capital employed, which are if anything more complicated than the corresponding excess profits tax provisions. However, there are in this connexion no provisions for averaging the capital over a period.

The adjustment to standards in respect of increased or decreased capital is now to be at 12 per cent instead of at 10 per cent. For director-controlled companies there is a corresponding increase from 12 per cent to 14 per cent. This applies both to share capital and to 'undistributions' or over-distributions. It will be remembered that for the purpose of claiming the 12 per cent on new share capital the new capital must have been subscribed in 'cash', which was extended by clause 57 (3) to include valuable considerations in lieu of cash. The SOLICITOR GENERAL confirmed what we said on April 19th last (pages 397 and 398), namely, that clause 57 (3) was not apt to describe the application of undistributed profit in the paying up of bonus shares, that is to say, bonus issues made after the standard period do not qualify for the additional 12 per cent. However, one honourable member quoted our statement as meaning the opposite; perhaps our statement could have been more felicitously expressed.

For the purpose of calculating distributions there is a change in the commencing date. Originally they were to be computed as from January 1st, 1948. Now the commencing date (known as 'the relevant date') varies with the standard chosen, as shown by the following table:

Standard years	*Relevant date*
1947 and 1948	July 1st, 1947
1947 and 1949	January 1st, 1948
1948 and 1949	July 1st, 1948
1949 and 1950	July 1st, 1949

However, where the company has elected to take a percentage of its capital, either paid-up share capital or capital employed, on December 31st, 1946 or 1951, the relevant date is the January 1st next following, i.e. January 1st, 1947, or January 1st, 1952, as the case may be.

Incidentally, a new concession is introduced in favour of a company which commenced business after January 1st, 1947, and made a net loss in the period to December 31st, 1951. For the purpose of calculating 'undistribution' or over-distribution, the excess of losses over profits in that period is ignored.

This brings us to the new provisions for computing the standards of companies commencing business after January 1st, 1947. Clause 34 which deals with this has been so altered as to be hardly recognizable. The basic standard remains the same, namely, a percentage of the paid-up capital in the chargeable period, but the percentage is now to be 12 instead of 10, or 14 instead of 12 in the case of a director-controlled company.

If the business began before January 1st, 1948, the company may elect to base its standard on the average profit of its first two years' trading, or of the two years 1948 and 1949. If the business began in 1948 the company may elect to take a twelve months' proportion of the profit for the

period from the date of commencement to the end of 1949. For a business beginning in 1949, the election is for a twelve months' proportion of the profit to the end of 1950.

Where any of these options is exercised, the provisions for adjustment of standard, in respect of increased or decreased capital, apply with modifications.

Clause 37 which deals with the overriding maximum rate of levy on a company's whole profit was amended by the substitution of 15 per cent for 18 per cent. As we explained on a former occasion (April 5th last) this maximum applies to the whole period during which the levy is in force, not to each separate chargeable accounting period. A new sub-clause has been inserted in the clause, providing for a maximum rate of only 10 per cent for a company ordinarily resident in the United Kingdom which throughout all its chargeable accounting periods carries on substantially the whole of its business through a permanent establishment in territory outside the United Kingdom.

Clause 41, which deals with the transfer of a business after the beginning of the standard period, has received slight consequential amendments. The transferred business need only have been begun before 1949, instead of 1948, for the clause to apply.

The new clause providing for an adjustment to the standard in respect of borrowed money is comparatively simple. If the average amount of a company's borrowed money in the chargeable accounting period exceeds the average of the standard period, the standard is to be increased by 4 per cent of the excess. Conversely, if the average borrowed money in the standard period exceeds that of the chargeable accounting period the standard is reduced by 4 per cent of that excess. Where the company has elected to treat its profit of a standard year as 8 per cent of its average paid-up share capital, its borrowed money in that year is deemed to be nil. Where a non-profits standard is chosen, 4 per cent of all the average borrowed money in the chargeable accounting period is added to the standard, provided it is not the minimum standard.

Clause 47, which provides for an increase in the standards of companies operating mines of metal and oil wells, has been amended by increasing from 2 per cent to 3 per cent, and from 4 per cent to 6 per cent, the additions to the percentages applicable to other companies, that is to say, the percentages which now stand in their case at 8, 10, 12 and 14. A strong plea was made on behalf of other companies which exploit natural deposits and whose principal asset is therefore of a wasting nature, such as deposits of china clay, gypsum, pitchblend, sand and gravel. An undertaking was given by the Government to look into this before the Report Stage.

Amendments were made to clause 49 which deals with the liability of the nationalized industries. Under sub-clause (3) they can claim an optional standard under which compensation stock is treated as paid-up share capital. A new sub-clause (4) provides for the special position of the National Coal Board, in whose case only about half of the compensation stock has yet been issued. Under the new sub-clause it is to be assumed, where the National Coal Board exercises the option, that all the compensation stock was issued by the end of 1951. A further new sub-clause is consequential on the decision to give an allowance of 4 per cent on borrowed money, referred to above. It ensures that compensation stock, which is treated as paid-up capital, shall not also be treated as borrowed money.

Clause 51, which deals with the liability of a company which trades in partnership with individuals, survived the Committee Stage, but an undertaking was given to reconsider its wording. The point was made that where a company's fractional share of the firm's profits is increased after the standard period, the company may suffer hardship in that its increased share of profit will be treated as excess profit.

Clause 36, which deals with deficiency relief, has been slightly amended in subsection (5). Subsection (5) sets out the circumstances in which there is to be deemed a break in the continuity of the business. As already announced, the appointment of a liquidator, receiver, manager, etc. of a company is not to be such a break and accordingly Section 36 (5) (*e*) has been deleted. However, paragraph (*a*) of that subsection has been extended to include any case where a company comes under the control of up to seven individuals and its business is substantially changed. Previously the paragraph was confined to control by up to not more than three individuals.

A STANDARD COSTING SYSTEM

PROBLEMS OF INSTALLATION

by ANGUS MACBEATH, C.A., A.C.W.A.

The installation of a standard costing system is a function which is unlikely to be carried through by the accountant unaided. A number of general problems will arise and the accountant will require the assistance of the technical staff in solving them. Some of these problems are examined in this article.

A STANDARD costing system is the accounting thermometer of modern industry. On the glass is marked the point at which the mercury is expected to hover, and when the mercury moves beyond the mark, industry opens the window or closes the door to bring the mercury back to the mark, or, if the mark has been made too low on the glass, a new mark, higher up, will be made.

Joint Decisions by Accountant and Technical Staff

The work of fixing the mark will fall on the accounting department and will involve not only financial problems but related works problems which may require joint decision by accountant and technical staff.

Among the problems which will require to be dealt with in installing a standard costing system are:

(*a*) The fixing of the standard unit.
(*b*) The fixing of the standard period.
(*c*) The fixing of the standard production.
(*d*) Obtaining the data to arrive at the initial standard costs.
(*e*) Fixing the channels by which will be explained the differences disclosed between the standard costs and the actual results when the system is in operation.
(*f*) Fixing the means by which changes in the standards will be introduced.

The installation of a standard costing system is necessarily more difficult in some types of industry than in others. Thus a company manufacturing motor-cars by conveyor-belt methods will be able to adopt a system with ease, using as its standard unit the completed motor-car, which unit is constant so long as the design is constant.

On the other hand, a company engaged in the production of pig-iron from blast furnaces, and which would therefore seem to have a ready-made unit in the ton of pig-iron, has difficulty in using that unit because the mixture in the blast furnace may be changed so frequently that a specification of materials for each ton is impossible, and as standard it is necessary to take either the blast furnace department as a whole or the tonnage on an average basis, which may not be entirely satisfactory.

The Cost Unit

The first problem, therefore – the fixing of the standard cost unit – is one on which guidance by the technical staff is required. The endeavour is to obtain the best standard cost unit which will generally be the smallest regular unit in the cost sequence. The unit may be the department – because such a variety of goods is made in the department under constantly changing circumstances (for example, a department producing a variety of textile garments) that there is no regular recurring unit within the department to which costs can consistently be fixed – or it may be the machine, because the costs can be broken down as far as a machine-hour rate to apply to a variety of products, none of which is sufficiently consistent to become the standard unit – or we may be fortunate enough to be dealing with a factory producing an article of regular and recurring type which can conveniently have the costs broken down to it and which can therefore become the standard unit.

Generally speaking, the technical staff should fix the standard unit, but the accountant may be able to fix it himself from the data given in the returns of production in the factory, showing by departments the production achieved over each costing or accounting period.

The Standard Period

The standard unit is fixed and we pass on to the question of the standard period. The problem here is: should the standard be based on one accounting period, on several accounting periods, on one calendar year, or should the standard period be indefinite and be amended only when the position has changed to such a large degree that the existing standard costs are no longer suitable?

This problem again seems to depend on the

type of production with which the accountant is dealing. Large-scale bakers producing many thousands of loaves daily could probably review the standard costs each accounting period, or could equally well fix standard costs to continue indefinitely because of the consistency of production. Perhaps this example would be more suited to England than to Scotland because, while the English housewife will ask usually for a loaf and receive a tin-baked loaf standard in shape, type and size, the Scottish housewife does not ask for a loaf, but for a 'high-pan' a 'square-pan', a 'plain', a 'Yorkshire', or a 'French'.

Calendar Year

The most usual period for standards to cover will probably be the calendar year which is the smallest unit of time in which all normal happenings will take place.

In settling the period to be adopted, the accountant should examine the available statistics covering the type of production; the quantity of production; whether production is constant or fluctuates between seasons with consequent fluctuation in the expenses incurred. The technical staff of the business should guide the accountant in making the final decision upon the period to be adopted.

The Standard Production

The fixing of the standard production is the next problem and this one is vital.

The whole of the budgeting, standard costing and sales policy could be made useless by being wide of the mark in fixing the standard production for the standard period.

The actual fixing of the amount of the standard production should be the function of the technical staff, but the accountant is concerned to be satisfied that the amount fixed is accurate because of the substantial effect which it has on his figures.

Amount of Standard Production

The standard should lie somewhere between the production which would give the break-even point and the maximum production of which the business would be capable under perfect conditions.

If the standard fixed is too low, then the benefit of the standard costs might be largely lost because the actual costs and returns would then be better than standard, and the management may consider the position disclosed to be satisfactory. Such an assumption would be damaging to a business which was in fact operating inefficiently and was continuing so to operate without having its inefficiencies disclosed by the operation of the standard costing system.

On the other hand, if the standard is fixed too closely to perfection, then the actual costs will be consistently higher than the standard costs based upon the high production which is not attained, and the constant repetition of the reason – that standard production had not been reached – in explaining the differences between actual and standard, would undoubtedly minimize the value of the standard costing system.

Normal Conditions

The accountant, therefore, expects to be supplied with a standard production figure which will represent a quantum which should be reached under normal conditions, and the accountant cannot be the judge of what constitutes normal conditions.

If the returns received in the accountant's department show that the production standard has in any accounting period been greatly exceeded, or that the actual has fallen far short of standard, then he will expect that the explanations accompanying the returns will indicate that the cause of the difference was exceptional and non-recurring.

If the difference is large and recurring, then it seems advisable that the standard costs should be recomputed forthwith.

Collection of Data

We now have the standard unit, the standard period, and the standard production. Next is the collection of the data to build up to the standard costs.

The operations of a manufacturing business can be divided into four sections: administration; purchasing; producing; selling.

The costs of administration – and in this section we can probably include the cost of the normal running of research departments – will be recovered or charged through the costs as overheads, which are discussed later.

Purchasing

The purchasing, or buying, section, is a department on whose success a business may rise or fall just as much as in the manufacturing sections. This is clearly illustrated today when many factories manufacturing products in wool are ruefully surveying the losses which they have to face in the differences between the prices fixed in forward contracts for wool supplies, which had been placed to ensure a continuing supply of

wool on a scale demanded by the then existing level of sales, and the current delivery prices of wool.

An example of the position can be taken from one business where contracts for wool supplies were placed forward at some 30*s* per lb. The price tumbled rapidly so that the wool could be purchased for 15*s* per lb. On top of that, demand for the finished goods dried up and the firm was unable to take delivery of the wool purchased because the existing stocks had not been cleared to make room for the new. The business therefore found themselves in the position of being required to take delivery of something they no longer wanted and of having to pay double the current market price for it!

The woollen industry has been passing through an exceptional period but lack of stability in prices is by no means limited to that one industry. How then can the accountant fix standard costs which mean anything if purchasing prices are fluctuating almost every day?

It is impossible to hope to fix a standard cost for every raw material which will cling constantly to the market price, and it seems advisable to fix the standards at the market prices of the day, to keep a separate record of the buying differences representing the differences between actual costs and the fixed standard costs, and to charge the standard costs only to the productive departments.

Separate Differences

A standard cost is fixed for each raw material. It seems essential that there should be a separate account to record the buying difference on each main material rather than merely to have one comprehensive difference account which may hide a great number of differences both of excesses and of deficiencies which should each be examined separately.

There are schools of thought which suggest that the prices used for the standard costs should be reviewed within the period taken for the standard costs as a whole if the prices have changed upon a permanent basis. Thus, for example, if the price of a material in which there was not a free market was changed by Government order, it would be sensible to alter the standard price to the new order price since the difference otherwise thrown up between actual and standard would have no value from an efficiency point of view since the purchasing department could not place orders at any other price. For example, a cable-making company whose main materials included copper and lead, would have used the fixed prices for those materials in their standard costs, and when a change was made in the fixed prices the standards would be altered accordingly.

Productive Departments

Having fixed the standard costs for the raw materials based upon current market prices, we pass on to the productive departments.

Into the productive departments will go:

The raw materials and consumable stores;
The wages of the work-people;
The direct expenses and the operations of the service departments;
The overheads;

and out of them will come the finished goods whose costs will be compared to standard costs of sales.

The accountant will prepare his cost sheet building up first the total cost, then the breakdown to the departments, and so on to the breakdown to the standard unit.

Specification of Materials

The first of the accountant's requirements will be a specification of the materials which will be used in the production of each standard unit. This specification must come from the works, must be most carefully detailed, and must be very accurate.

Where the standard unit is, for example, a motor-car the specification of materials would probably be a straightforward computation to which the accountant could apply the standard prices from the purchasing department.

On the other hand, the position would present more difficulties in dealing with pig-iron production, as the mixture in the blast furnaces may be changed frequently because of the varying iron content of ores used and quantity of fluxes required. In dealing with such production it would seem that the standard specification would require to be based upon an estimated consumption of materials and a return be made regularly showing the departures from the estimates in the actual production.

Wages

The standard cost of wages creates new problems.

If there is a time and motion study department, the accountant will thankfully accept the standard times which will be supplied to him and apply the cost to those times to arrive at his standard costs.

Where, however, the cost of labour is not a

highly developed separate study, he is thrown back upon his own resources and will require to establish standards based upon the current rates of payment and the time taken for each part of the work.

He will require to have a list of all the functions carried through in producing the standard unit and to be supplied with details of the grade of labour which will carry through each function and the standard time which each function should require.

Time and Functions

The standard time required must be fixed by the technical staff and would probably be fixed by tests of actual operations made from time to time.

The standard costs for wages must be carefully related to each function because the grades of labour and the methods of remuneration may be greatly varied. For example, men will be paid more than boys; women more than girls, and, generally speaking, males more than females. Also, where premium-bonus schemes or piece-work are in operation, the standard time must make allowance for the extra payments which will be part of the cost in excess of the basic value of the time worked. Allowance must also be made for the extra costs of continuous working where night shifts and week-end working are remunerated more highly than ordinary time.

Sometimes the position may be made somewhat easier by the practice of giving out work on a contractual basis. The ship-building industry used this procedure. A price was fixed for a section of work and this price was paid to one man who was responsible for finding the assistants he required and for paying them. The position then was that the firm knew how much each section of work would cost and the leader who undertook the section was able to make what profit he could on the contract into which he entered.

Direct Expenses

Direct expenses may be standardized in a similar way to raw materials and stores. By 'direct expenses' are meant those supplies which are not goods nor are supplied by the service departments; for example, electricity for power and light and gas for the same purposes. The standards for those examples could be arrived at from the current prices of supply, allowing for such matters as the KVA of maximum demand or the coal price variation clause which would require to be calculated from past records of consumption. In dealing with such matters the accountant can be assisted by returns from the works, giving a standard consumption per standard unit from which he can calculate the total standard consumption and thus, from the total cost, work back again to the unit cost.

The Service Departments

Next we have the service departments which will vary greatly in type in different industries. Many of the heavy industries will have electricians' shops, smiths' shops, joiners' shops, and the like.

In allocating the costs of the service departments on a standard basis, the standard costs of the service departments may first be built up on a similar basis to that of the productive departments. Then a standard cost per hour can be arrived at from the total costs divided by the standard total hours and, finally, be allocated to the productive departments according to the standard consumption in hours by each productive department.

The assistance from the technical staff which the accountant will require here is considerable. He must be advised of the standard hours for each service department and allocate those standard hours to the productive departments. The whole of the standard hours will be allocated to the productive departments though in actual practice if the rate per hour charged by a service department did not recover the whole costs this would indicate idle time, whereas, conversely, an over-recovery would indicate service department use in excess of normal.

Overheads

Finally we come to the overheads, on the treatment of which there are several different schools of thought. Assuming, however, that the need to allocate to production all the overheads, whether variable or fixed, is accepted, it is necessary first to establish standard amounts for each overhead and then to apply those amounts to the standard unit.

It is necessary for the accountant to obtain details of the overheads applicable to each department and of the extent to which the overheads are incurred in each department. He would require to be advised of the extent to which each administrative overhead could be applied to each department and in default of this information he would be obliged to allocate those standard overheads in the manner he would adopt in installing an historical costing system.

So much for the costs.

Sales Policy

In relation to sales, the management requires guidance on the fluctuations in the cost of sales as pointers in deciding their sales policy. This guidance can be given by the standard costs system as, out of all the data which he has accumulated in the purchasing and manufacturing departments, the accountant can accumulate a standard cost of sales figure for each standard unit and the comparison of actual results with the standard cost of sales figure should give the management the information on this point which they require.

Differences

The accountant's department will receive each accounting period – or it may be weekly – returns, which show the actual performances compared to the standard performances expected. Where there are differences, the reasons for those differences should be given in the return. Thus, if the standard cost of a raw material is 5*s* per unit and the return shows 7*s* 6*d* per unit, the reason for the change may be given as 'end of old contract – new contract at higher price – current market price has risen to 8*s* 6*d*'; or, if the standard production in a department is 1,000 units, and 950 only were produced, the reason 'loss of production due to breakdown of a lathe' would be given.

When the costs for each accounting period have been worked out, the accountant should have obtained all the data necessary to enable him to explain the reasons for the differences disclosed between the standard costs and the actual costs.

Object of Standard Costing

The object of standard costing is to permit of management by exception, that is, to concentrate the main attention on those departments or sections whose actual performances are at variance with the standards fixed.

It should be noted that a department consistently beating the standard set may be just as much a menace to overall efficiency as a department consistently failing to achieve its standards. To take an extreme example, if a product consists of four components united by a final assembly, then if three components and the final assembly all are produced and carried through nearly to the standards fixed, while the fourth component is produced in a greater quantity than the standard and at a lower cost than standard, everything would appear to be entirely satisfactory. However, if the end of the accounting period finds a surplus of the component produced in excess of standard while a changed design of the final product makes that component obsolete, the loss involved may be greater than any which inability to reach the standard fully would have caused

Adjustment for Permanent Differences

After the various excesses and deficiencies of actual costs compared to the standards having been listed, discussed, investigated, and dealt with, the accountant is left to decide if any of the differences are so permanent or so acute that his standard costs have ceased to represent an accurate position and require to be amended. On this point he would be guided by the regularity by which differences appear and are explained by the same cause each time. The whole object is to reveal the exception so that when a difference becomes so regular that it ceases to be exceptional, that difference should be eliminated by amendment of the standard cost at the end of the standard period then current.

Generally speaking, and subject to the points discussed earlier, standard costs once fixed should not be amended until the commencement of a new period of the length decided upon as most appropriate for the fixing of the standards.

Conclusion

The nature of the problems which confront the accountant engaged in the installation of a standard costing system is such that the assistance of the technical staff who have a specialized knowledge of the works processes is required in order to solve those problems.

Just as the auditor is not expected to be a valuer in dealing with verification of the stock-in-trade in the balance sheet which he certifies, so the accountant installing a costing system cannot be expected to have, in addition to his accounting knowledge, the technical skill to assess works factors.

Once the works factors have been established initially the accountant's skill is engaged, and he must thereafter so frame the returns which he requires regularly from the works that the information which flows into his office will enable him to assess the reasonableness of the initial figures.

When variations are thrown up by the application of the standard costing system, the data in the accountant's hands should enable him to explain those variations and to take steps to adjust the standards where the variations are of a permanent nature.

WEEKLY NOTES

Food Industry Productivity Report

The British productivity team on fruit and vegetable utilization – the fiftieth team to visit the United States under the auspices of the Anglo-American Council on Productivity – notes in its report,[1] published last Monday, that the historical recording of financial transactions appears to be much less important than the ascertainment of the day-to-day costs. Because of its detailed knowledge of the technicalities and problems of the factory and sales organizations, the accounting department holds a place of equal importance with the production and selling departments.

The constant and unremitting force of competition and the general inflationary tendency of prices make cost control a vital necessity. Even the smallest businesses have adequate methods of ascertaining costs at four-weekly or monthly intervals. It is also noted that instead of accepting a rise in price as inevitable, the manufacturer, where possible, searches for an alternative or simplified means of production so as to minimize the effect of increasing costs. Complete integration of costing and financial accounts is rare but the same basic information is used for both and the cost figures are invariably reconciled with the periodical financial accounts.

Electric Lamp Industry

Giving the Government's considered views in a written answer in the House of Commons recently, on the Monopolies Commission's report on the electric lamp industry, the Minister of Supply stated that he had discussed the position with the industry and that 'they are taking action to bring their arrangements into conformity with the Government's conclusions'. Apart from one point, the Government has endorsed the Commission's findings. Since the Electric Lamp Manufacturers' Association has submitted proposals for putting the recommendations of the Monopolies Commission into effect there will be no order issued under the Monopolies and Restrictive Practices Act.

In this case then, persuasion is to be used to make changes by bringing the industry's pricing arrangements into full public view. It remains to be seen whether this system is adequate and whether it is intended to use no stronger measures than this in the case of other industries. The dental appliances manufacturers were called upon to conform to a statutory order so it can hardly be said as yet that there is emerging a continuous line of governmental policy.

So far as the electric lamp makers are concerned it has never been seriously questioned that they are anything other than efficient or that they have failed to let the consumer participate in the benefits following from increasingly efficient methods of production. For the future, judging monopolistic practices in this industry is hardly likely to become easier if the trend of prices is to be the basis of a considered opinion. Recent technical advances in the industry point in the direction of further increases in efficiency quite apart from the issue of price policy and Government intervention.

Copper Companies' Application

Five copper companies within the Rhodesian Selection Trust group have applied to the Treasury for permission to move their residence from this country to Northern Rhodesia. The five concerned are Roan, Antelope, Rhodesian Selection Trust, Mufulira, Chibuluma, and Rhodesian Selection Trust (Services). It is stated that application to transfer has been prompted by the emergence of political and industrial conditions within the territory of Northern Rhodesia which call for the direction of the group's affairs on the spot. Application is made under Section 468 of the Income Tax Act, 1952, which forbids transfer to outside the United Kingdom for purposes of avoidance of income-tax or profits tax without Treasury consent.

The announcement will apparently be amplified after the Treasury has given its ruling. The reference to emerging conditions in Northern Rhodesia is presumably one to the possibility of some form of central African federation, though the statement does not say so. It is, however, difficult to see any other set of circumstances over recent months which could have hardened the directors' resolve to go abroad. From the outside it would look more as if the excess profits levy has been the straw which has broken the camel's back: that there was on balance until the Budget a slight weighting of opinion on the board to stay in this country and that excess profits levy has put the balance the other way. The group has for obvious reasons preferred to argue its case on the other grounds however.

Whatever the grounds, the ruling will be a significant one for British industry and the tax authorities.

German Debt Talks

It has not taken long for the German debt talks to reach what looks like an impasse. The representatives of the creditors have made it quite clear that the German proposals do not provide even a basis for discussion.

The German delegation has put forward the suggestion that the West German State can afford to pay over only a sum of about £50 million a year, from which would be deducted some £9 million which will be payable to Israel. This leaves around £42 million for the American, British, French and other

[1] Copies of the Report can be obtained from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, and from the Food Manufacturers' Federation Incorporated, 57 Catherine Place, London, SW1, price 4s (post free).

creditors. The Germans also suggest that payments should be related to the amount of imports which creditors will take from Germany.

Even if the matter is taken no further than the basic principles it is clear that the creditors will not accept the proposition that Western Germany can transfer only £50 million a year or that the size of the annual settlement should be directly related to the volume of German exports to its creditors. Of the £42 million it appears that Germany is offering to repay £28 million in respect of post-war liabilities for economic assistance and £14 million on account of pre-war debts. The Reich loans would be written down by something like 50 per cent and the German debts as a whole would under these arrangements be cut by something like 80 to 90 per cent. Creditors will probably take almost as much exception to the split-up between pre-war and post-war liabilities as to the idea of a small lump sum of some £50 million as the sum total of the burden which Western Germany can afford to bear.

Suggestions for the interest servicing of the debt have been equally unattractive to creditors.

A Late Spring

At this time of the year economic conditions are wont to take on a certain vernal appearance due to the favourable seasonal factors which are favourable to the balance of payments. This year there has been a notable absence of spring resilience. The signs are if anything the other way.

Look in any direction at conventional indices of the economic state of the nation and they are disquieting. The £ abroad has gone below the official parity level of $2.80 which means that there can hardly be a net favourable movement of gold and dollars at the moment, although there have been hints of a slackening of this drain though not of a net inflow. The indices of production give little promise of that £250 million increase in industrial output which was anticipated in the Budget and the trade returns for imports and exports are discouraging. The stock markets led by gilt-edged are depressed and nervous. Part of this attitude is traceable to the expected effect of the excess profits levy, but most of it is due to a general nervousness. The roar of relief which went up at the end of last week in the City when it was announced that there would be no upward change in Bank Rate could almost be heard in distant Westminster.

The only favourable reports at the moment come from Yorkshire from where there are accounts of more optimism on the outlook for woollens and worsteds. But even in this case the pessimists would doubtless say that here was an instance of whistling to keep up courage. To return to the metaphor of the seasons, spring has definitely been late this year and the country must hope for a long and settled summer.

FINANCE AND COMMERCE

Renewed selling of British Government stocks and the weakness of sterling have brought fresh uncertainty to the stock market position. The impression is growing that the dollar and general balance of payments position is not making satisfactory improvement and that further credit restriction may be necessary. No immediate Bank Rate increase is anticipated.

The Tetley Interim

We welcome the introduction of interim profit statements by Joshua Tetley & Son Ltd, the Leeds brewers. Our notice of this event has been awaiting the space required for a full reproduction because it is only through seeing the statement, as issued by the company, that one can properly appreciate its scope and value.

This new development follows the adoption of a much extended and far more informative form for the annual accounts last year.

We hope this presentation of interim figures will be studied, and serious consideration given by other companies to the question of issuing something more than annual figures, frequently months old.

In one case, not long ago, a well-known company issued its annual accounts more than twelve months after the accounting date.

April 1952

To the ordinary stockholders:

STATEMENT OF TRADING AND ESTIMATED PROFIT

The directors have decided that in future they will issue interim statements of trading and estimated profit for the information of ordinary stockholders.

These statements will normally be issued at the end of the month following completion of the first, second and third quarters of the company's year and will provide cumulative figures. No statement will be issued for the fourth quarter of the year as the results of this quarter will be incorporated in the company's final accounts when published.

Trading and Estimated Profit for the six months ended March 31st

	1952	*1951*	*1950*
	£	£	£
Sale of Cask and Bottled Ale	2,884,607	2,653,920	2,661,195
Less Excise Duty collected and paid over to Revenue	1,867,378	1,771,011	1,808,359
Net Sales of Cask and Bottled Ale ..	1,017,229	882,909	852,836
Less Materials and Cost of Production	446,109	434,948	384,096
Profit on Sale of Cask and Bottled Ale ..	571,120	447,961	468,740
Rents of Properties, Profits on Managed Houses, Commission, Interest and Sundry Income	61,450	63,799	48,589
Estimated Total Income	632,570	511,760	517,329
Less Selling, Administration and Property Expenses	356,716	314,526	282,051
Estimated Trading Profit	275,854	197,234	235,278
Less Interest on Debenture Stocks, Directors' and Debenture Trustees' Fees	27,883	17,183	11,819
Estimated Profit before Taxation ..	£247,971	£180,051	£223,459

Note. – *It is to be expected that the charge for Taxation for the current year will be higher than that for 1951 when it was at the rate of 12s 6d per £1 of Profit.*

In studying these figures it should be noted that the price of beer was raised in the middle of May 1951

so that there would naturally be an increase in the profits for this six months as compared with the previous year, although expenses have risen considerably during the last year, and are still increasing.

How Many Columns ?

How many columns of figures does it take to make a balance sheet? Usually three. Whether the balance sheet is horizontal with capital to left and assets to right, or vertical with total of capital, reserves and surplus represented by fixed assets and net current assets, most companies, one finds, use three columns.

The Skefko Ball Bearing Co Ltd has this year changed over to a very neat version of the vertical form. As in last year's double-sided account, three columns are required. An instance is in current assets less current liabilities where the first column is used for the separate items – stock, debtors, cash, etc. – the second for the group total and the third for the final total of net current assets.

All this may sound rather elementary but it is interesting to see what happens when the effort is made to get a quart into a pint pot, or all the figures into one column.

Quart in Pint

There is an example of this 'quart in pint' balance sheet in the accounts of Evans Medical Supplies Ltd, which we reprint this week. The accounts this year, as the chairman points out in his statement, are presented in a new form. They are designed, he says, to provide stockholders with both a clearer and a more comprehensive picture of the state of the company's affairs.

The obvious intention here is good as in the six-year review which, however, we must omit from the reprint for reasons of space. This review is a very useful addition to the normal accounts.

But in regard to the balance sheet it seems rather too much to expect compression of parent and group figures (with comparisons in red) into four columns without sacrifice of lucidity. All the information is

EVANS MEDICAL SUPPLIES LTD AND SUBSIDIARY COMPANIES
Profit and Loss Account – Year ended December 31st, 1951

	Evans Medical Supplies Ltd 1951	*1950*	*Evans Medical Group* 1951	*1950*
	£	£	£	£
Trading and Manufacturing Profit (*Group profits shown after provision for overseas taxation on profits to date*)	442,390	*265,318*	478,743	*277,355*
Add Dividends from Subsidiary Companies (net)	2,645	*2,064*	—	—
	445,035	*267,382*	478,743	*277,355*
Deduct Debenture Interest Gross	18,813	*17,553*	18,813	*17,553*
Debenture Stock Redemption Charge	12,000	*12,000*	12,000	*12,000*
Provision for depreciation of buildings and plant	38,181	*35,167*	41,089	*39,022*
Provision for Profits Tax on profits for year to date	65,759	*31,973*	65,759	*31,973*
Reserve for Income Tax including Tax on profits for year to date	129,199	*66,046*	130,822	*67,152*
Auditors' Remuneration	1,118	*750*	2,138	*1,683*
Directors: Fees	2,100	*2,100*	2,100	*2,100*
Managerial Remuneration	19,075	*15,119*	19,075	*15,119*
Past Directors' Pensions	2,302	*1,500*	2,302	*1,500*
	288,547	*182,208*	294,098	*188,102*
Net Profit	156,488	*85,174*	184,654	*89,253*
Less Profits attributable to Minority Shareholders	—	—	259	—
	156,488	*85,174*	184,386	*89,253*
Special Provisions etc.				
Less Special provision for initial depreciation of additions to buildings and plant	32,893	*23,692*	32,893	*23,692*
Expenses in connexion with bonus share issue	401	—	401	—
Expenses of new issue of Ordinary stock	—	*6,536*	—	*6,536*
Expenses and discount in connexion with Debenture stock issue	7,271	—	7,271	—
Cost of Goodwill of Subsidiary written off	3,234	—	3,234	—
Increase in Statutory Reserve of Brazilian Subsidiary	—	—	607	—
	43,799	*30,228*	44,406	*30,228*
Available Profit for Year	112,689	*54,946*	139,980	*59,025*
Add Balance brought forward from previous year	34,294	*46,952*	50,720	*56,957*
Provisions no longer required	—	—	1,057	*2,342*
Profit on Exchange	—	—	1,054	—
Interest on War Damage claim *less* contributions	2,265	—	2,265	—
Total Available	149,248	*101,898*	195,076	*118,324*
Appropriated as follows:				
General Reserve	84,312	*40,000*	84,312	*40,000*
Dividends Paid (net):				
6 per cent Cumulative Preference	7,617	*7,979*	7,617	*7,979*
Ordinary – 3 per cent Interim (*3 per cent*)	8,485	*5,080*	8,485	*5,080*
Proposed Final Dividends (net):				
Ordinary: 5 per cent and Bonus 2 per cent (*7 per cent and Bonus 2 per cent*)	19,798	*14,545*	19,798	*14,545*
	120,212	*67,604*	120,212	*67,604*
Balance Carried Forward as per Balance Sheet	£29,036	*£34,294*	£74,864	*£50,720*

there but it has to be extracted rather as one had to extract the facts from the old-fashioned balance sheet of a quarter of a century ago. In one way, there is rather too much information. The detail of fixed assets could have been shown outside the balance sheet itself and the eye thus saved from the distraction created by the present layout.

Money Market

Treasury bill applications totalled £302,300,000 on May 23rd and, maintaining the bid at £99 8*s* 1*d*, the market received 63 per cent of requirements against 70 per cent previously. The average rate was £2 7*s* 7·94*d* per cent and this week's offer is £240 million. Maturities amount to £220 million.

EVANS MEDICAL SUPPLIES LTD AND SUBSIDIARY COMPANIES

Balance Sheet as at December 31st, 1951

	Evans Medical Supplies Ltd 1951	1950	*Evans Medical Group* 1951	1950
	£	£	£	£
Current Assets				
Stock and Stores at the lower of cost or market value	1,062,979	844,949	1,288,864	960,175
Debtors	588,107	573,744	702,331	665,850
Owing by Subsidiary Companies	224,768	148,402	—	—
Insurance Policy	8,711	7,695	8,711	7,695
Cash	35,912	35,900	38,858	53,431
Difference due to consolidation of one Subsidiary at June 30th, 1951	—	—	238	—
	1,920,477	1,610,690	2,039,002	1,687,151
Deduct:				
Current Liabilities				
Creditors	461,049	448,759	496,271	499,217
Owing to Subsidiary Company	43,621	47,586	—	—
Dividend recommended, *less* tax	19,798	14,545	19,798	14,545
Bankers, including advances against foreign bills	103,220	156,338	138,581	174,938
Deferred Repairs	2,525	4,600	2,525	4,600
Taxation (excluding income-tax on profits for year to date)	145,509	103,643	147,545	105,181
	775,722	775,471	804,720	798,481
Net Current Assets	1,144,755	835,219	1,234,282	888,670
Goodwill, Patents and Trade-marks	—	—	—	—
Investments in Subsidiary Companies (see Note I)	49,667	47,796	—	—
Trade Investments (see Note II)	1,278	1,278	1,278	1,278
Investments	50,945	49,074	1,278	1,278
Fixed Assets (*As inset below*) *(Parent Company's Fixed Assets insured for £1,438,000)*	581,706	503,059	642,373	564,790
Freehold and Leasehold Land and Buildings at cost	624,133	520,299	668,806	564,973
Less Provision for depreciation and amortisation of leasehold properties	183,841	153,535	183,841	153,535
	440,292	366,764	484,965	411,438
Plant and Equipment at cost	605,588	555,012	639,259	587,724
Less Provision for depreciation	464,174	418,717	481,851	434,372
	141,414	136,295	157,408	153,352
Total of Net Current Assets, Investments and Fixed Assets	1,777,406	1,387,352	1,877,933	1,454,738
Deduct:				
4½ per cent First Mortgage Debenture Stock	640,000	402,000	640,000	402,000
Reserve for Income-tax on profits for year to date	127,844	66,844	129,251	67,950
Minority Interests in Subsidiary Companies	—	—	4,514	5,457
	767,844	468,844	773,765	475,407
Net Assets	£1,009,562	£918,508	£1,104,168	£979,331
Share Capital				
Authorized	*Issued and converted into stock*			
£250,000 6 per cent Cumulative Preference Shares of £1 each	241,804	241,804	241,804	241,804
538,722 Ordinary Shares of 5s each	538,722	307,841	538,722	307,841
150,000 Unclassified Shares of £1 each	—	—	—	—
61,278 Unclassified Shares of 5s each	—	—	—	—
£1,000,000				
Undistributed Profits including Reserves (see Note III)	229,036	368,863	323,642	429,686
	£1,009,562	£918,508	£1,104,168	£979,331

IAN FERGUSSON
H. ASHLEY MASON } *Directors.*

The Notes are not reproduced. – Editor.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Historical Cost *v.* Replacement Cost

SIR, – May a mere tyro be permitted to enter the lists in the tremendous controversy, historical cost versus replacement cost accounting?

It seems to be widely recognized now that 'the postulate of monetary stability on which traditional accounting is based is an obvious fiction'. The remedy however, or the replacement of, the fiction by some other concept seems likely to split the profession from top to bottom.

Pondering the problem I wondered whether the solution might be to apply the standard costing concept of a 'variance' until such time as revision is possible.

For example, in terms of 1939 pounds we might apply an index which reveals a 'stability variance' on any item in the balance sheet, or the profit and loss. The variances so revealed could be termed, for example, stock stability variance, depreciation stability variance and so on.

At least the comparison with a predetermined standard, namely, pre-war pounds, would serve to throw into relief the variation caused by rising prices, and the consequent failure to maintain capital.

Whether the 'stability variance' became subsequently a 'revision variance', and resulted in amendment to the standard would depend upon the permanence or otherwise of the inflationary trend.

Whatever the solution, the general consensus of opinion seems to be, if it were done when 'tis done, then t'were well it were done quickly.

Yours faithfully,

Sidcup, Kent. D. A. TRIGWELL.

Joint Venture: Division of Profits

SIR, – Referring to 'A.C.A.'s' letter in your issue of May 24th, the difficulty arises over the definition of the 'profits' to be divided. It appears that the intention is that A.'s and B.'s shares shall be equal up to £10,000 profits and thereafter A. shall receive twice the amount B. does.

Since the agreement provides that the manager's commission shall be taken into account in arriving at the division of profits between A. and B., this would appear to imply that the word 'profits' means 'the profits after deduction of the manager's commission'. This is supported by the method of calculating the manager's commission, which is based on the profits after deduction of the commission.

Consequently if the manager's commission is £x, then B.'s share is £$20x$, and A.'s share is £2(£$20x$ – £5,000) + £5,000, which equals £$40x$ – £5,000.

	£	s	d	
Therefore (£$61x$ – £5,000) =	25,273	3	11	
£$61x$ =	30,273	3	11	
£x =	496	5	8	(to nearest penny)

This results in the following distribution:

	£	s	d
A.	14,851	5	6
B.	9,925	12	9
Manager's commission ..	496	5	8
	£25,273	3	11

Yours faithfully,

Gunnislake, Cornwall. T. G. PREEDY.

SIR, – Ignoring fractions of a penny, the division of profits asked for by 'A.C.A.' in your issue of May 24th, 1952, appears to be as under:

	£	s	d
The manager	496	5	6
A.	14,851	5	8
B.	9,925	12	10
	£25,273	4	0

Yours faithfully,

E. R. A.

SIR, – The problem set by 'A.C.A.' in your issue of May 24th is, in my opinion, quite a simple one, for one must bear in mind one point, namely, that the manager's commission will be charged against the joint venture profits over £10,000. Thus the commission will be borne by A. and B. in the ratio of 2 : 1.

Taking x as the manager's commission, the profits will be divisible:

$$\left.\begin{array}{ll} \text{Manager} & £x \\ \text{A.} & £5{,}000+\tfrac{2}{3}(£15{,}273\ 3s\ 11d-£x) \\ \text{B.} & £5{,}000+\tfrac{1}{3}(£15{,}273\ 3s\ 11d-£x) \end{array}\right\} = £25{,}273\ 3s\ 11d$$

and the manager's commission would be:

$$£x = \frac{5}{100}\left(£5{,}000+\tfrac{1}{3}(£15{,}273\ 3s\ 11d-£x)\right)$$

$$£60x = £15{,}000+£15{,}273\ 3s\ 11d-£x$$

$$£61x = £30{,}273\ 3s\ 11d$$

$$£x = £496\ 5s\ 7d$$

From our distribution figures above:

A.'s share is £5,000 + $\tfrac{2}{3}$ (£15,273 3*s* 11*d* – £496 5*s* 7*d*) or £14,851 5*s* 7*d*

and B.'s share is £5,000 + $\tfrac{1}{3}$ (£15,273 3*s* 11*d* – £496 5*s* 7*d*) or £9,925 12*s* 9*d*

Therefore, the appropriate shares excluding taxation will be:

	£	s	d	
A.	14,851	5	7	
B.	9,925	12	9	
Manager ..	496	5	7	(5% of £9,925 12*s* 9*d*)
	£25,273	3	11	

Yours faithfully,

London, NW4. D. E. HUDSON.

Excess Profits Levy: Capital Allowances

SIR, – May I draw your attention to what appears to be an anomaly in the provisions of the Eighth Schedule of the Finance Bill, 1952?

In computing the standard profits there will normally be made deductions for capital allowances of the same amounts as were deducted for purposes of profits tax. In the ordinary way, these capital allowances included initial allowances, and it will be recalled that, for the fiscal year 1947–48, the initial allowances were calculated by reference to the total capital expenditure incurred in the period from April 6th, 1944, to the end of the financial year falling within the fiscal year 1946–47.

It follows, therefore, that the standard profits of the accounting periods falling within the fiscal year 1947–48 will be depressed by an unfair burden of an initial allowance calculated on as much as three years' capital expenditure. It would appear that, for purposes of excess profits levy, the deduction for initial allowance in respect of 1947–48 should be restricted to an amount calculated on the capital expenditure incurred in one year (the basis year for 1947–48).

I am aware of the option to exclude initial allowances from the excess profits levy calculations, but it is not equitable that this option should have to be exercised in order to avoid an anomaly.

It may be that the provisions of paragraph 8 of the Eighth Schedule are intended to cover this point, but I doubt whether the Revenue will regard the deduction of a capital allowance as an expense.

Yours faithfully,

London, EC4. C. W. McCORMACK.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases.*

Mackenzie *v.* Arnold

In the High Court of Justice (Chancery Division)
April 29th, 1952
(Before Mr Justice DANCKWERTS)

Income-tax – Author – Sale of copyrights while profession still being carried on – Whether sale moneys taxable – Deduction of commission – Deduction of expenses – Income Tax Act, 1952, *Section* 123, *Schedule D, Case II, Case VI.*

During the years from 1911 to 1930 the appellant had carried on his profession as an author abroad, and had in those years incurred expenses to the extent of £19,000. From December 1930, the appellant had carried on his profession in the United Kingdom.

In 1942 certain copyrights in his books reverted to the appellant, and in 1943 he made an agreement with his publishers for the sale to them of the copyrights in twenty novels written by him, and received therefor the sum of £10,000. Out of this £10,000 the appellant paid the £1,000 as commission to the agent in connexion with the sale, and it was conceded by the Inland Revenue that this £1,000 was an allowable deduction in computing the appellant's income under Case II of Schedule D.

The appellant contended that the £10,000 was not a taxable receipt of his profession as an author, and, alternatively, that if the £10,000 was a taxable receipt, that he was entitled to charge against his receipts the sum of £19,000 representing the expenses that he had incurred in the years down to 1930.

Held, that the £10,000 was a taxable receipt of the appellant, and that as the £19,000 had been incurred as expenses over earlier periods that sum could not be deducted in computing the amount of the assessment under appeal.

In re Batley

In the High Court of Justice (Chancery Division)
April 4th, 1952
(Before Mr Justice VAISEY)

Income-tax – Tax-free annuity – Liability to account for tax reliefs – Enforcement of liability.

The testator bequeathed to his former wife an annuity of £416 for her life, the annuity to be considered as a continuance of the alimony which he had been paying her during his lifetime. If at any time the annuity should exceed the amount of one-third of the total income of the estate after payment of income-tax, then the amount of the annuity was to be one-third of that total income.

In a previous case arising in the same matter (*In re Batley* (30 A.T.C. 182)) it was decided in the Court of Appeal that this annuity was payable free of tax, and the question in the present case was whether or not the annuitant was liable to account to the testator's estate for any tax reliefs received by her in respect of the annuity. The annuitant had remarried, and her second husband was assessed to income-tax in respect of their joint incomes, and he was the person to claim the tax reliefs in respect of their personal allowances.

Held, that the annuitant was a trustee of her statutory right to recover the tax reliefs in respect of her annuity, and was bound, at the request of the testator's trustees, to exercise that right; that, if it was necessary, she was bound to apply to be separately assessed under Section 355 of the Income Tax Act, 1952; and that the amounts of any reliefs in respect of the annuity that were recovered either by the annuitant or her husband belonged to the trustees.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ACCOUNTING PRINCIPLES

XV. Accounting in Relation to Changes in the Purchasing Power of Money

In amplification of its recommendation XII on Rising Price Levels in Relation to Accounts, the Council of The Institute of Chartered Accountants in England and Wales makes the following statement to members of the Institute. This statement is designed to present in conjunction with recommendation XII a brief description of the limitations on the significance of accounts prepared on the generally accepted basis known as historical cost, to examine the main suggestions so far made for new principles designed to overcome those limitations, and to make recommendations as to the procedure which should be followed in preparing annual accounts unless and until a generally acceptable alternative to the historical cost basis of accounting is available. The whole subject of accounting in relation to changes in the purchasing power of money is of such importance that the Council proposes, after the International Congress on Accounting in June 1952, to invite other professional bodies to join with it in further study of the subject. Pending the outcome of such further study, it is hoped that this statement will be helpful to members whose advice may be sought by clients, or who have responsibilities as directors or officers of companies.

ACCOUNTING BASED ON HISTORICAL COST

The primary purpose of the annual accounts of a business is to present information to the proprietors, showing how their funds have been utilized and the profits derived from such use. It has long been accepted in accounting practice that a balance sheet prepared for this purpose is an historical record and not a statement of current worth. Stated briefly, its function is to show in monetary terms the capital, reserves and liabilities of a business at the date as at which it is prepared and the manner in which the total moneys representing them have been distributed over the several types of assets. Similarly a profit and loss account is an historical record. It shows as the profit or loss the difference between the revenue for the period covered by the account and the expenditure chargeable in that period, including charges for the amortisation of capital expenditure. Revenue and expenditure are brought into the account at their recorded monetary amounts. This basis of accounting is frequently described as the historical cost basis and in this statement the expression 'monetary profits' is used to denote profits so computed.

An important feature of the historical cost basis of preparing annual accounts is that it reduces to a minimum the extent to which the accounts can be affected by the personal opinions of those responsible for them. For example, the cost of a fixed asset is known so that in calculating depreciation provisions based on that cost the only respects in which estimates enter into the matter are in relation to the probable useful life of the asset and its realizable value, if any, at the end of its life. Depreciation provisions computed on this basis are intended, by making charges against revenue over the useful life of an asset, to amortise the capital expenditure incurred in acquiring it. For this purpose, estimates of current value or of replacement cost do not arise. Again, there are limits within which estimates and opinions can properly operate in relation to stock-in-trade, provided the bases of calculation are sound in principle and used consistently.

The significance of accounts prepared on the basis of historical cost is, however, subject to limitations, not the least of which is that the monetary unit in which accounts are prepared is not a stable unit of measurement. During a period of rising prices a decrease occurs in the purchasing power of cash and bank balances and assets such as debts and investments carrying fixed rates of interest or dividend, but this decrease is not treated as a reduction of business profits; nor are business profits shown as being increased by the benefit derived from the fall in the burden, expressed in terms of purchasing power, of loans and other liabilities incurred before the rise in prices but payable in currency of diminished purchasing power. Moreover, the monetary cost at which stock-in-trade is charged against revenue is not sufficient, during a period of rising prices, to meet the cost of replacing the same quantity of stock; and similarly depreciation charges based on the monetary cost of fixed assets will not provide the amount required to meet the cost of replacement of those assets at higher prices if and when they need to be replaced.

Monetary profits do not therefore necessarily reflect an increase or decrease in wealth in terms of purchasing power; and in times of material change in

prices this limitation upon the significance of monetary profits may be very important. It would be a major development in the building up of a coherent and logical structure of accounting principles if the limitations of accounts based on historical cost could be eliminated or reduced by the adoption of new principles, capable of practical application to all kinds of businesses in a manner which would be independent of personal opinion to a degree comparable with the existing principles based on historical cost.

THE MAIN SUGGESTIONS FOR NEW ACCOUNTING PRINCIPLES

The main suggestions which have so far been made for new accounting principles to overcome the limitations of the historical cost basis, may be considered in the following four broad categories:

The replacement cost method of dealing with fixed assets.

The writing-up of fixed assets.

The current value method of dealing with stock-in-trade and depreciation of fixed assets.

The index method of adjusting accounts to reflect changes in the purchasing power of money.

The Replacement Cost Method of Dealing with Fixed Assets

The object of the replacement cost method of dealing with fixed assets is to make charges to profit and loss account to provide the amount needed to meet the cost of replacement. Under this method, therefore, provisions for replacement would be charged, instead of depreciation charges designed to amortise the cost of fixed assets over their useful life. The method was followed more extensively in the past than it is today, particularly though not exclusively by public utility undertakings.

Considerable uncertainty attaches to the calculations required by the replacement cost method. Unless an asset is to be replaced within a very short period, the replacement cost cannot be estimated with any accuracy and the method therefore leaves wide scope for extremes of personal opinion in determining each year the charge to be made in computing profits. Moreover, improved methods of production and new inventions often render existing plant obsolete with the result that when it is replaced the new equipment is of a different character from the old.

In conditions where prices continue to rise, the uncertainty of the method is emphasized because the estimated replacement cost of assets increases year by year. If each year's charge has been calculated on the basis of one year's proportion of the replacement cost estimated at the time of making the calculation, then the aggregate of the amounts so provided will not be sufficient to meet the actual cost of replacement. If in order to meet this difficulty the calculation each year is made on a cumulative basis so as to make up the deficiency in past provisions, the effect would be to place undue burdens upon particular years. On the other hand if the deficiency were not so made good, the amounts shown as profits would not have been arrived at after providing for the replacement of fixed assets. In the latter event, the effect of applying the method would be to show as profits each year amounts which are neither monetary profits nor profits after providing fully for the replacement of fixed assets; the more persistent the rise in prices the less significance the profits computed in this way would have, because each further rise in prices would increase the deficiency in the past provisions.

In addition to the foregoing difficulties of calculation and treatment, the method involves other considerations which become apparent when replacement occurs. At that point two courses are open, namely either (*a*) to bring into the balance sheet the cost of the new asset, thus maintaining in the balance sheet the cost of the fixed assets in current use; or (*b*) to charge the cost of the new asset against the accumulated replacement provisions. If the first course is followed the cost of the asset replaced will be charged against the accumulated replacement provisions; but if prices have been rising these provisions will exceed the amount charged against them and this excess will be treated as a reserve, thus being recognized in the balance sheet as part of the proprietorship interest. This involves the inconsistency that the profits of each year during which the provisions are accumulated will be ascertained after deducting amounts which it is known must in due course be recognized as reserves and could become available for distribution to proprietors. Such a reserve would not be disclosed in the balance sheet if the second course were followed (namely the charging of the cost of the new asset against the accumulated replacement provisions), because the balance sheet would not show the cost of existing assets; instead it would continue to include the cost of the asset which has been replaced and if this procedure were followed on each successive replacement the amount standing in the balance sheet would be the original cost of an asset which may have been replaced many times.

Another consideration arises in a period of falling prices when replacement would cost less than historical cost. If each year's charge is calculated on the basis of one year's proportion of the replacement cost estimated at the time of making the calculation, then the aggregate of the amounts so provided will fall short of the amount required to amortise the cost of the existing assets. It cannot be assumed that there will be reserves against which to charge the deficiency and it would therefore seem that the charge must be to the profit and loss account. The effect of such a charge would be to adjust the aggregate depreciation charges to what they would have been under the historical cost method. The replacement cost method is therefore not capable of application in a period of falling prices, unless an additional

charge is made in order to provide for the full amortisation of capital expenditure actually incurred.

The Writing-up of Fixed Assets

In some countries businesses have been permitted for taxation purposes to write up fixed assets in accordance with a legally established index and thereafter to charge depreciation on the written-up amounts.

The writing-up of fixed assets has the effect of treating the business as ceasing and starting afresh on a new basis as from the date of writing up; and this is why it is in practice considered to be appropriate and desirable in certain special circumstances, such as where a subsidiary is acquired and the assets are written up to reflect the cost to the acquiring company, or where subscriptions for new capital are invited on the basis of a current valuation of the assets. Apart from such special purposes, the writing-up of assets appears to be suitable only for the readjustment of all balance sheets by government action as part of a process of stabilizing a currency.

If fixed assets are written up, the subsequent charges for depreciation will be the amounts required to amortise the written-up amounts of the assets over their remaining life. The figures shown as profits for years subsequent to the writing-up will therefore be arrived at after charging depreciation on amounts which are neither the historical cost nor the estimated replacement cost of the fixed assets. If the writing-up were not based on a legally established or generally accepted index there would be wide scope for the factor of personal opinion in so computing depreciation charges. The method also involves an inconsistency similar to that arising under the replacement cost method. At the time of writing up, the excess of the written-up amount over the historical cost of the assets concerned would be treated in the balance sheet as a capital reserve; later, when the written-up amount has been fully amortised by subsequent depreciation charges, the reserve could become available for distribution to the proprietors although it will never have appeared as profit in the profit and loss account.

The Current Value Method of Dealing with Depreciation and Stock-in-trade

The object of the current value method of dealing with depreciation and stock-in-trade is to express charges for consumption of assets in current values and not in terms of the monetary cost of the assets consumed.

Charges for depreciation of fixed assets would not be regarded as the spreading of historical cost or as provisions for future replacement. They would be regarded as a measurement of asset consumption during the year, calculated by applying the depreciation rates to the estimated current value of the fixed assets instead of to their historical cost. Broadly the effect would be that the charges in any particular year for depreciation of fixed assets would be adjusted to approximately what they would have been if the assets had been purchased at prices ruling in that year instead of when they were in fact purchased. Some advocates of this basis of ascertaining profits suggest that the method by which the current value of fixed assets is estimated should be that best suited to the particular type of business; for example valuation by the company's engineering staff, or current insurance values, or price indices according to the year of purchase. Such a proposal serves to emphasize the dependence of the method upon personal opinion.

In a period of rising prices when current values are greater than historical cost, the depreciation charges calculated on current values would exceed depreciation calculated on historical cost and the method requires this excess to be shown in the balance sheet as a capital reserve. This would involve the inconsistency that an amount which is treated as a deduction in computing profits is recognized in the balance sheet as forming part of the interest of the proprietors and could even become available for distribution to them in the event of the reserve being regarded as no longer of a capital nature. In a period of falling prices when current values are less than historical cost, the method would not be capable of application unless an additional charge were made to provide for the full amortisation of capital expenditure actually incurred.

As already indicated, the current value method does not purport to be a means of providing for the replacement of fixed assets. If therefore prices continue to rise and it were desired to accumulate the full amount required to replace fixed assets, it would be necessary to set aside additional sums over and above the depreciation charges calculated on current values. These additional sums would be treated in the profit and loss account as transfers to reserve. The total reserve shown in the balance sheet under the current value method would then be the same as that which can be achieved under existing accounting principles; but whereas under existing principles the creation of that reserve would be shown in the profit and loss account as having been made out of profits, under the current value method part of the amount taken to reserve would be treated, as stated in the preceding paragraph, as a charge in arriving at profits.

The current value method also requires charges for consumption of stock-in-trade to have regard to current values rather than to historical cost. Some advocates of the method suggest that the manner of charging consumption in current values should be left open for consideration in the special circumstances of each case but that certain methods of valuing stock-in-trade, namely LIFO (last in, first out), NIFO (next in, first out) base stock and variants of these should be recognized as means of achieving the desired end and that whatever method is adopted should be indicated in the accounts.

In a period of rising prices the effect of charging consumption of stock-in-trade on the basis of current values would be that the difference between the cost of an article and the higher amount for which it

could be replaced at the time of its sale would not form part of the profit on the transaction. In a period of falling prices when stock-in-trade could be replaced at less than its historical cost, the current value method could not be applied unless an additional charge were made to cover the excess of the historical cost over the current value. Whether prices are rising or falling, however, the difference between the cost of an article and its current value may often result to a much greater extent from market fluctuations in the prices of particular goods than from any general trend in the purchasing power of money. Such market fluctuations are an ordinary business hazard affecting profit or loss and their incidence on a particular business may be dependent to a considerable extent upon judgment in buying and on management generally, whereas under the current value method the effect of these fluctuations would be excluded in computing profits.

The Index Method of Adjusting Accounts to Reflect Changes in the Purchasing Power of Money

The object of the index method of adjusting accounts is to eliminate from profits the effect of fluctuations in the purchasing power of money.

The method is not strictly a proposal for a change from accounting based on historical cost; it is more in the nature of a proposal for adjusting accounts which have been prepared on the basis of historical cost. The ascertainment of profits involves bringing together in one account monetary amounts for transactions which have taken place not only at various times during the period covered by the account but also at various times in other periods, for example, stock-in-trade at the commencement of the period and fixed assets acquired many years earlier. The theory of the index method is that if there has been a change in the purchasing power of money between the time when a transaction was entered into and the date as on which the accounts are prepared, the currency in which the transaction took place was a currency different from that now in use and must be converted into the new currency. For the conversion process an index of purchasing power would be used.

The technique of applying the index method need not present insuperable difficulties if a satisfactory index were available, although there could be considerable complications in respect of businesses with complex capital structures. An important practical consideration would be that in order to enable the index method to be applied as a part of normal accounting procedure, it would be essential for the index to be available in an up-to-date form month by month; otherwise it would not be available for use as and when required by a particular business for the rapid production of the annual accounts at the normal accounting date. It would seem from the theory underlying the index method that it must apply not merely to transactions effected in earlier years, such as the purchase of fixed assets or stock-in-trade held at the beginning of the accounting period, but also to transactions during the accounting period if during that period there have been material changes in the purchasing power of money.

Unless all items were converted into the 'new currency' and not merely selected items such as depreciation of fixed assets and consumption of stock-in-trade, the account would not, in a period of rising prices, reflect the loss in purchasing power arising from the holding of assets such as investments, debtors and bank balances or the gain arising on liabilities of fixed monetary amount. In businesses where such items are material in relation to fixed assets and stock-in-trade it would be inconsistent to ignore such losses and gains and to take into account only those arising on particular types of assets. To do so would not enable the effects of the diminution in the purchasing power of money to be measured so that they can be eliminated in ascertaining profits or losses. Similar considerations arise in a period of falling prices.

Application of the theory underlying the index method would require an index which represents changes in the purchasing power of money and not indices of changes in the prices of particular articles. If an index of purchasing power were not used, it would be necessary to use different indices for various items in the accounts of any one business; this procedure would be a means of applying the current value method to stock-in-trade and depreciation but it would not measure the effect of changes in the general purchasing power of money which is the object of the index method. The view might be taken that the use of an accurate index of changes in general purchasing power is not important and that any reasonable index could enable the effects of such changes to be measured with sufficient accuracy, provided the same index were used by all businesses. On the other hand, prices do not move uniformly for all articles and commodities, so that the application of a general index to a particular business could well be inappropriate. Moreover the effect on a particular business of changes in the purchasing power of money may be offset by the benefits derived from technical improvements. The whole theory of the index method therefore needs further examination before it could be accepted as a valid method of adjusting accounts prepared on the basis of historical cost.

If it were established that the theory of a general purchasing power of money is valid and a satisfactory index could be prepared, there would remain the important question of the purpose for which the index method is to be applied. If it were used merely as a means of measuring the effects on the affairs of a business of changes in the purchasing power of money, for the purpose of giving this information in statements supplementary to accounts prepared on the basis of historical cost, it might give information which would be of interest to the management and proprietors. If however the index method were

accepted as a means of introducing a new conception of profit, it would carry implications which extend far beyond accounting matters.

ECONOMIC AND SOCIAL ISSUES

The adoption of any new conception of profit, whether based on the replacement cost method, the writing-up of fixed assets, the current value method, or the index method, would raise much wider questions than the computation of business profits. A conception based on the index method would raise the whole question of the effect of changes in the purchasing power of money on rights expressed in monetary terms. Important economic and social issues would then need consideration and some of these would also arise if a conception of profit based on any of the other three methods were adopted. The following are some of the questions which would need consideration:

(*a*) Whether there should be legal recognition of changes in the purchasing power of money so as to adjust legal rights which have been expressed in terms of money; for example investments in government and other stocks and shares, rents under leases, pensions, insurance policies, debentures and other liabilities, rights under service agreements and profit-sharing schemes to incomes which are dependent on or vary with profits, and the relative rights of life tenants and remaindermen.

(*b*) The determination of prices of goods and services, particularly the question whether a new conception of profit would make it necessary for prices to be raised in order to enable a business to pay a fair return to investors, or indeed to make a profit at all; in other words whether the effect would be to cause a further fall in the purchasing power of money and thereby aggravate the problem.

(*c*) The relative position for taxation purposes of different kinds of businesses and of persons having money incomes, including employees and pensioners of businesses. In the United Kingdom the basis and scale of taxation seriously restrict the extent to which monetary profits may be retained in businesses to meet the increased capital requirements imposed by diminution in the purchasing power of money. A new conception of business profits designed to alleviate this situation would raise the question of what is the proper taxable income of other classes of taxpayer; in a period of rising prices it would relieve businesses of a large amount of taxation and would therefore raise the further question of how the burden of that relief is to be distributed over other taxpayers.

(*d*) The effect on the raising of capital for business undertakings if such capital is to be raised on the basis that before dividends can be paid the purchasing power of the capital employed in the business must be maintained, as distinct from the existing position under which it is a matter of policy for directors to consider to what extent monetary profits are to be regarded as available for distribution and to what extent it is desirable to retain profits to meet the future requirements of the business.

(*e*) The position in the event of the purchasing power of money being increased by falling prices, particularly if the effect of a new conception of profit were to be that the contributed capital would cease to be intact.

(*f*) The position of persons who have acquired investments on the basis of annual accounts or prospectus statements prepared in accordance with existing accounting principles, if the adoption of a new conception of profit would result in dividends, including those on preference capital, whether or not cumulative, being reduced or passed.

These issues affect not merely every business but also every individual and they involve major considerations of general monetary and social policy which go far beyond the question whether one accounting method of computing business profits is more free from limitations than another.

CONCLUSIONS AND RECOMMENDATIONS

The Council cannot emphasize too strongly that the significance of accounts prepared on the basis of historical cost is subject to limitations, not the least of which is that the monetary unit in which the accounts are prepared is not a stable unit of measurement. In consequence the results shown by accounts prepared on the basis of historical cost are not a measure of increase or decrease in wealth in terms of purchasing power; nor do the results necessarily represent the amount which can prudently be regarded as available for distribution, having regard to the financial requirements of the business. Similarly the results shown by such accounts are not necessarily suitable for purposes such as price fixing, wage negotiations and taxation, unless in using them for these purposes due regard is paid to the amount of profit which has been retained in the business for its maintenance.

On the other hand the alternatives to historical cost which have so far been suggested appear to have serious defects and their logical application would raise social and economic issues going far beyond the realm of accountancy. The Council is therefore unable to regard any of the suggestions so far made as being acceptable alternatives to the existing accounting principles based on historical cost.

Recommendations

Unless and until a practicable and generally acceptable alternative is available, the Council recommends that the accounting principles set out below should continue to be applied:

(*a*) Historical cost should continue to be the basis

on which annual accounts should be prepared and, in consequence, the basis on which profits shown by such accounts are computed.

(*b*) Any amount set aside out of profits in recognition of the effects which changes in the purchasing power of money have had on the affairs of the business (including any amount to finance the increase in the cost of replacements, whether of fixed or current assets) should be treated as a transfer to reserve and not as a charge in arriving at profits. If such a transfer is shown in the profit and loss account as a deduction in arriving at the balance for the year, that balance should be described appropriately, since it is not the whole of the profits.

(*c*) In order to emphasize that as a matter of prudence the amount so set aside is, for the time being, regarded by directors as not available for distribution, it should normally be treated as a capital reserve.

(*d*) For balance sheet purposes fixed assets should not (except in special circumstances, such as those referred to in paragraph 297[1]) be written-up, especially in the absence of monetary stability.

The Council also recommends to members who are directors or officers of companies or who are asked by clients for advice, that they should stress the limitations on the significance of profits computed on the basis of historical cost in periods of material changes in the purchasing power of money; and that they should draw attention to the desirability of:

(*a*) Setting amounts aside from profits to reserve in recognition of the effects which changes in the purchasing power of money have had upon the affairs of the business, particularly their effect on the amount of profit which, as a matter of policy, can prudently be regarded as available for distribution.

(*b*) Showing in the directors' report or otherwise the effects which changes in the purchasing power of money have had on the affairs of the business, including in particular the financial requirements for its maintenance and the directors' policy for meeting those requirements, either by setting aside to reserve or by raising new capital.

(*c*) Experimenting with methods of measuring the effects of changes in the purchasing power of money on profits and on financial requirements. If the results of such experiments are published as part of the documents accompanying the annual accounts, the basis used for the calculations and the significance of the figures in relation to the business concerned should be stated clearly.

May 30th, 1952.

[1] See page 579 of this issue: second paragraph under 'The Writing-up of Fixed Assets'. – Editor.

NOTES AND NOTICES

The Royal Commission

A public meeting was held yesterday, Friday, May 30th, 1952, by the Royal Commission on the Taxation of Profits and Income, at Incorporated Accountants' Hall, Victoria Embankment, London, when evidence was heard from certain witnesses on proposals for altering P.A.Y.E. and on other matters.

We hope to report and comment on the proceedings of the hearing in next week's issue.

Personal

MESSRS GEORGE A. TOUCHE & Co, Chartered Accountants, announce that Mr R. K. SOMERVILLE, C.A., who has been associated with the firm for many years, was admitted to partnership on April 1st, 1952.

Professional Notes

Mr C. Croxton-Smith, M.A., LL.B., F.C.A., a partner in the firm of Watling & Partners, Chartered Accountants, and Mr P. G. Cardew, B.A., A.C.A., managing director of Mardon, Son & Hall, both of Bristol, have been appointed Justices of the Peace.

Mr A. G. B. Burney, O.B.E., B.A., F.C.A., a partner in the firm of Binder, Hamlyn & Co, Chartered Accountants, has been appointed to the London board of the Northern Assurance Co Ltd.

Mr F. W. McGuinness, T.D., A.C.A., A.C.I.S., has been appointed Secretary of W. & A. Gilbey Ltd.

In Parliament

HOSPITALS: COST ACCOUNTING

Mr J. MORRISON asked the Minister of Health how far the system of hospital cost accounting in force in England and Wales is strictly comparable with the system in force in Scotland; and what is the difference in cost per week as compared with Scotland, of maintaining a patient in a general hospital in England and Wales.

Mr IAIN MACLEOD: The two systems of hospital cost accounting differ in several respects. For example, the classification of the hospitals is not the same, and in each hospital, expenditure is analysed and distributed between beds and patients on a different basis. It is therefore impossible to make the comparison, for which my hon. Friend asks, with any accuracy.

Hansard, May 21st, 1952. Written Answers, Col. 61.

National Insurance Contributions

The following announcement has been issued by the Ministry of National Insurance:

EFFECT OF CUSTOMARY HOLIDAYS

Workers on 'short time' who are unemployed during the whole of a week which includes a customary or

recognized holiday in connexion with their employment (e.g. a bank holiday) will not in future have to pay contributions for that week. They will instead be able to have their insurance cards franked.

This is the effect of regulations[1] made by the Minister of National Insurance, Mr Osbert Peake, which came into operation on Monday, May 26th. The regulations apply only where there are not more than three customary holidays in the same week.

COMMITTEE WILL CONSIDER OBJECTIONS

The National Insurance (Contributions) Amendment Regulations, 1952, have been made provisionally, pending receipt of a report upon them from the National Insurance Advisory Committee. The Committee will consider written objections to the regulations if sent before June 20th, 1952, to the Secretary, National Insurance Advisory Committee, 30 Euston Square, London, NW1. Copies of the preliminary draft of the regulations can be purchased (price 2*d*) from H.M. Stationery Office or from any bookseller.

Appointment of Official Receivers

The Board of Trade have made the following appointments:

Mr Christopher Albert Taylor to be Official Receiver for the Bankruptcy District of the County Courts of Northampton, Bedford and Luton; and also for the Bankruptcy District of the County Courts of Cambridge, Peterborough and King's Lynn from May 5th, 1952, and Mr George William Sisman to be Official Receiver for the Bankruptcy District of the County Courts of Bristol, Bath, Bridgwater, Cheltenham, Frome, Gloucester, Swindon and Wells, and also for the Bankruptcy District of the County Courts of Exeter, Barnstaple, Taunton and Torquay from May 7th, 1952.

Union of Chartered Accountant Students' Societies

Members of chartered accountant students' societies are reminded that all students' societies welcome to their meetings members of other societies who may be temporarily in their area.

There is also an arrangement for transfer of membership without additional fee, for members who permanently change their district. Such interchange should be carried out through the secretaries of the societies concerned.

A list of towns where students' societies hold meetings will be found on the front cover of this issue of *The Accountant*.

[1] National Insurance (Contributions) Amendment Provisional Regulations, 1952. S.I. 1952, No. 1066. H.M.S.O. price 3*d*.

The Association of Scottish Chartered Accountants in London Golf Club

The annual competitions of the Association of Scottish Chartered Accountants in London Golf Club were played in perfect weather at Moor Park, Herts, on May 23rd.

Mr E. F. Milne, handicap 6, won the Past Presidents' Challenge Cup with a net score of 73, and, together with Mr J. H. Robertson, also won the Bogey Challenge Cup.

The scores in the two competitions were as follows:

PAST PRESIDENTS' CHALLENGE CUP

Winner: E. F. Milne, 79 — 6 = 73; *Runner-up:* T. Ford Millar, 86 — 12 = 74; J. Thomson, 85 — 9 = 76; W. F. Eva, 93 — 15 = 78; J. G. Brown, 87 — 7 = 80; J. Robertson, 92 — 11 = 81; W. J. Findlay, 100 — 18 = 82; H. C. Thomson, 97 — 14 = 83; J. W. Johnstone, 90 — 6 = 84; T. Anderson, 91 — 7 = 84; A. Inglis, 95 — 11 = 84; D. McKelvie, 100 — 15 = 85; C. D. Gairdner (Captain), 96 — 11 = 85; H. Rule, 102 — 15 = 87; D. Galloway, 96 — 8 = 88; J. Gilchrist, 108 — 13 = 95.

Messrs J. Thomson and W. F. Eva tied for the prize for the best nine holes home, Mr Eva winning on the best last six.

BOGEY CHALLENGE CUP

Winners: E. F. Milne and J. H. Robertson, 1 up; *Runners-up:* H. Rule and A. Inglis, 3 down; D. McKelvie and A. R. Currie, 5 down; C. D. Gairdner and I. M. Whyte, 6 down; T. Anderson and H. C. Thomson, 6 down; J. Robertson and J. B. Duncan, 11 down; N. S. Matheson and T. Ford Millar, 11 down.

Cricket

THE LAW SOCIETY AND CHARTERED ACCOUNTANTS

The annual cricket match between the Institute and the Law Society will take place this year at the Wimbledon Cricket Club ground on Wednesday, July 16th, starting at 11.30 a.m.

There are still one or two vacancies in the team, notably for a slow bowler, and Mr Lawrence Robson would be pleased to hear from potential players; his address is 59 New Cavendish Street, London, W1.

It is hoped that members of the Institute and their friends will come and support the Institute side on the day; if they wish to have lunch and/or tea at the Club, will they please let Mr Robson know so that arrangements can be made.

The Institute of Actuaries

The annual general meeting of the Institute of Actuaries will be held at the Hall of the Chartered Insurance Institute, 20 Aldermanbury, EC2, on Monday, June 9th, 1952, at 5 p.m.

Recent Publications

STOCK CONTROL AND STOREKEEPING. Production Management Series 5. 59 pp. $9\frac{1}{2} \times 6$. 5s net. British Institute of Management, London.

CORPORATE TRUSTEES, by D. R. Marsh. xiv+318 pp. $5\frac{1}{2} \times 8\frac{1}{2}$. 25s net. Europa Publications Ltd, London.

INCOME TAX, Sixth Edition, 1952, by R. A. Butler. 71 pp. $5 \times 7\frac{1}{2}$. 2s 6d net. Tower Bridge Publications Ltd, Hadleigh, Essex.

CLASSIFICATION IN ACCOUNTING, by A. A. Fitzgerald, B.COM., F.I.C.A., and L. A. Schumer, F.I.C.A. x + 261 pp. $9\frac{1}{2} \times 6$. 45s net. Butterworth & Co (Publishers) Ltd, London.

ACCOUNTING AND COSTING IN THE PAINT INDUSTRY. 116+ appendix. 10×6. 30s post free. The Paint Materials Trade Association, Surbiton, Surrey.

INCOME TAX SIMPLIFIED, by Arthur Rez, B.COM.(LOND.), F.R.ECON.S., F.A.C.C.A. 46 pp. $8\frac{1}{2} \times 5\frac{1}{2}$. 5s net, 5s 4d post free. Barkeley Book Co Ltd, Stanmore, Middlesex.

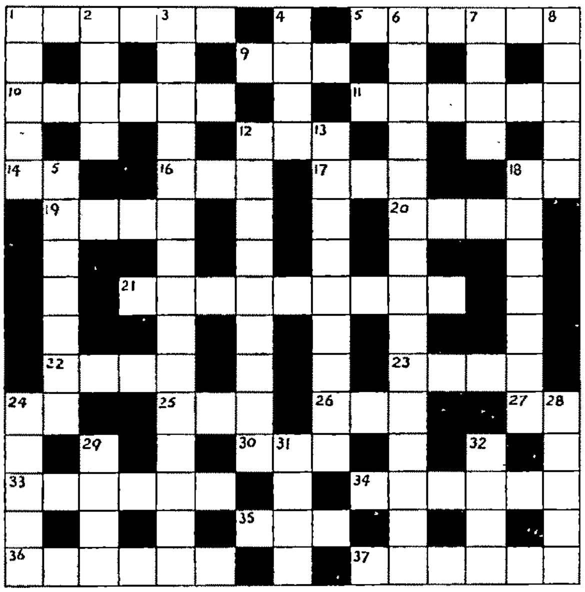
CANADIAN TAX FOUNDATION SIXTH ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 31ST, 1951.

EXECUTORS AND ADMINISTRATORS, Fifth Edition, by N. E. Mustoe, M.A., LL.B., with Executorship Accounts by J. J. Walsh, A.A.C.C.A. xliv + 299 pp. $8\frac{1}{2} \times 5\frac{1}{2}$. 27s 6d net, 28s 4d by post. Butterworth & Co (Publishers) Ltd, London.

COST-WORD PUZZLE

by NORMAN H. FOSTER, A.C.W.A.

The solution will appear in our next issue



ACROSS

1. One cause of variation between actual and standard . . . (6).
5. . . . and another, affecting recovery of fixed expenses (6).
9 & 35. To develop, perhaps, from 1 down, and finally to obtain, an estimate of future needs (6).
10. One way of pricing stores (2, 4).
11. In the absence of other incentives, some say supervision should be this (6).
12. 9 & 35 is usually resolved into this (3).
14 & 18. In caustic form would be NaOH (4).
16. The equivalent in Arabic would be a repetition of the same numeral (3).
17. If you cannot get one to do your work it will be yours first (3).
19. To get p, multiply D. . . . (2, 2).
20. In line production this is often set by a moving belt (4).
21. This of fixed expenses must be studied when comparing alternative action (9).
22. What methods of depreciation should not do from period to period (4).
23. Any bonus scheme should be capable of being understood with this (4).
24. I'd estimate briefly, that is to say (2).
25 & 26. The chemist's reply to the plaintiff? (6).
27. Even certain weighty expenses may move in sympathy with this 7 down (2).
30. Money, but not 12 across (3).
33. How one may usually describe the kind of production cost that includes all overheads in one rate (6).
34. Prudence, foresight or sagacity in managing or conducting affairs (6).
35. See 9 across (3).
36. Should be taken to carry out 1 down (6).
37. Final accounts are prepared this end (2, 4).

DOWN

1. Start these at the top, without them success is doubtful (5).
2. The extent and cause of such facilities should be well known (4).
3. Usually, actual: potential (10, 5).
4. In theory, the length of these should be fixed at the quantity for which the setting-up equals the cost of the locked-up capital (4).
6. Immediate expense of a scheme, not including fixed overhead (3–2–6, 4).
7. Just one of many items (4).
8. An addition, possibly to the time allowed, to cover substitute materials or unsuitable tools (5).
12. Cash has this attribute (9).
13. 'The exhaustion which takes place . . . when raw materials are extracted . . .' (9).
15. To take notice (7).
18. 7 down of measurement of the intensity of sound (7).
24. May be red but invisible (5).
28. One side of the market (5).
29. This word is used too much in answering exam. questions (4).
31. A concern must break this to recover all expenses (4).
32. Most expenses are related to this (4).

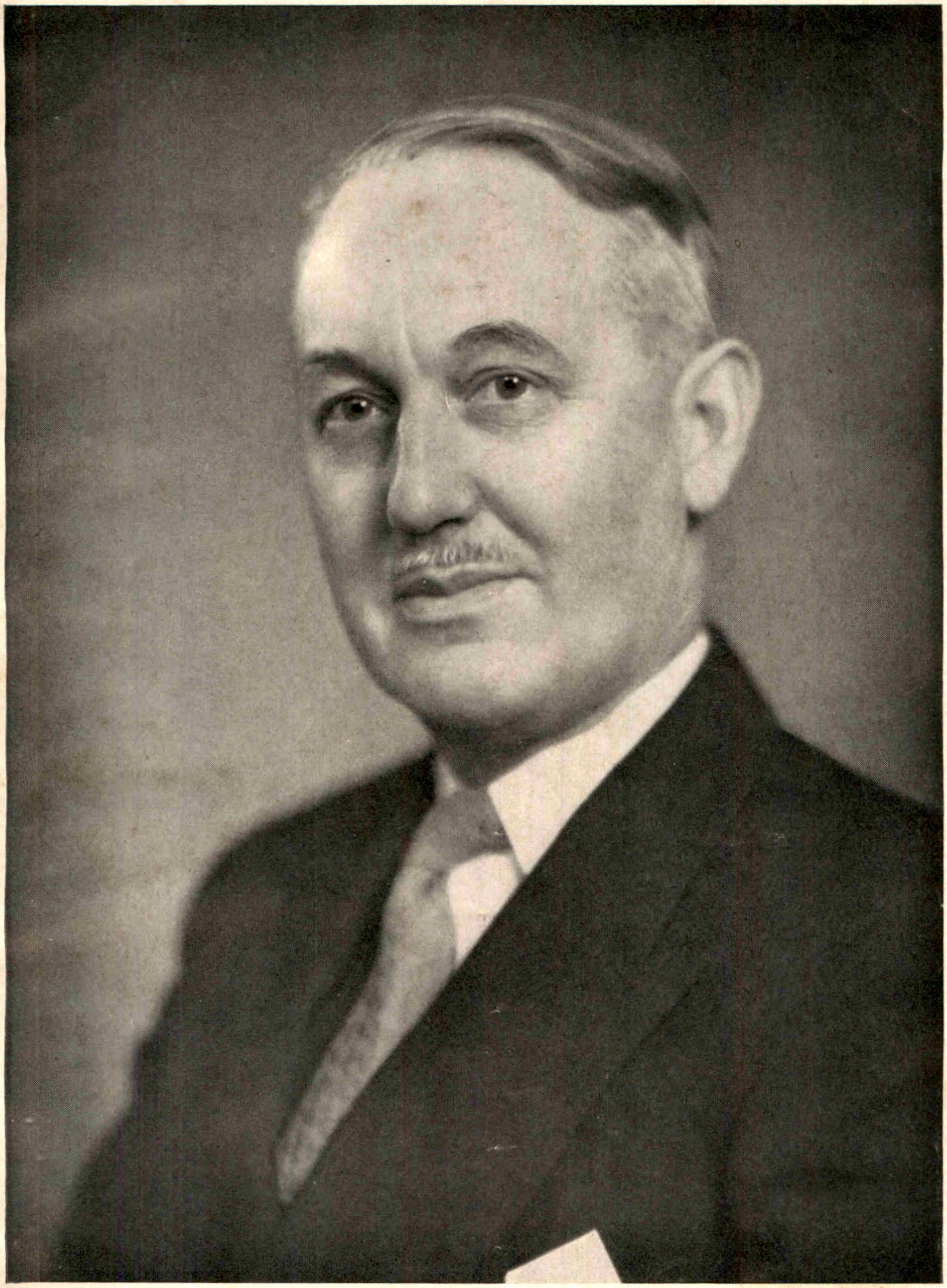


Photo: Elliott & Fry Ltd

THOMAS BUSTON ROBSON, M.B.E., M.A., F.C.A.
President
The Institute of Chartered Accountants in England and Wales
1952

The Accountant

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CONTENTS

P.A.Y.E. AND INCENTIVES

THE Royal Commission on the Taxation of Profits and Income has been discussing the possible disincentive effect of P.A.Y.E. on the will to work, and ways of removing it. The proceedings at its recent meeting are reported on page 601.

It is generally agreed that under the present system the gradual release of personal allowances over the income-tax year, combined with the cumulative principle, focuses attention on the marginal rate of tax on extra earnings, and indeed is definitely misleading when extra earnings are made early in the year. Potentially, therefore, P.A.Y.E. is disincentive in effect, and all those who have submitted schemes for reform have assumed that it is in fact deterring workers from earning as much as they otherwise would. In the absence of any direct statistical evidence, the Commission has been trying to discover whether this assumption is valid.

It is a difficult question. All direct taxation is disincentive, whether at a flat rate or at progressive rates, especially when total taxation is so high, and its effect on the average mind is enhanced by platitudes about 9*s* 6*d* and 19*s* 6*d* in the pound, as though these were the only two rates. On the other hand, perhaps not enough attention is paid to the fact that very large numbers of people are content to earn just that amount which, after deducting income-tax, will maintain their traditional or conventional standard of living. They may none the less give income-tax as the reason for their reluctance to earn more.

MRS URSULA HICKS, who was questioned by the Commission, advocated a flat rate of tax to include social security contributions, personal allowances being replaced by direct allowances. Alternatively she suggested a scheme similar to the one in the United States. MR F. H. HUGHES' scheme was expounded in this journal on March 10th, 1951, at page 233. It consists briefly of basing a flat-rate deduction for each quarter on the income of the preceding twelve months. Incidentally, the Association of Her Majesty's Inspectors of Taxes also advocates a flat rate. The Association of University Teachers of Accounting would replace the present cumulative basis by a moving total of fifty-two weeks' earnings. The Institute of Chartered Accountants of Scotland would have deductions at a provisional flat rate, followed by adjustments at the end of the year, and would increase the number of reduced rates.

A memorandum by the Board of Inland Revenue painstakingly demonstrates the disadvantages of these schemes, both to taxpayers and to those charged with operating them. Indeed, P.A.Y.E. as at present operated is an efficient instrument, and if it is not in fact more disincentive than alternative schemes, the case for changing it has not been made out unless it also brings greater simplification.

THE FINANCE BILL

CONCLUSION OF THE COMMITTEE STAGE

THE Committee stage of the Finance Bill went out 'not with a bang but a whimper'. Fewer than 250 members voted at the final division, which rejected an Opposition amendment to increase the exemption limit for profits tax from £2,000 to £5,000, and the abatement limit from £12,000 to £20,000. As the existing figures were fixed in 1937, when the pound was worth much more than it is now, there would seem to be some justice in the proposal; it would cost only £4 million and save a great deal of work on small cases.

As regards excess profits levy the Committee adopted without a division the new schedule which directs how capital employed is to be computed for the purpose of the new optional standard. It will be remembered that the computation is to be made as at either December 31st, 1946, or December 31st, 1951. Assets which qualify for capital allowances are to be brought in at their written-down value. War-damaged property in respect of which a value payment has been made is to be brought in at cost less the value payment, unless it is a minus figure. All other assets are to be valued at the amount paid for them in cash by the company. Unpaid excess profits tax post-war refunds are to be included. Debts owing to the company are to be reduced by any allowance made for bad or doubtful debts.

Borrowed money is to be deducted, as well as other debts, including accrued amounts allowed for income-tax. The income-tax for the year in which the date falls is to be deducted. The schedule also provides that the 'liability at the end of the year' for excess profits tax is to be deducted, including liability under an assessment made afterwards. Profits tax for any period ending at or before the operative date is to be deducted.

If a balance sheet was not drawn up as at December 31st, the value of the assets at the last preceding balance sheet is to be taken. To this value is to be added the undistributed profit from the date of the balance sheet to December 31st, computed as provided by the Ninth Schedule (which deals with distributions) but taking the whole, instead of half, of the profits, and deducting the whole of the profits tax for the broken period, instead of merely the profits tax attributable to distributions. On the liabilities side, the tax liability as at December 31st is to be taken, but of course excluding profits tax for the period from the balance sheet date, which will already have been taken into account.

Drastic amendments, many of them consequential on other changes, have been made to the Eleventh Schedule (which sets out the special provisions relating to groups of companies) but the draftsman's quaint phrase about severing nexus has been retained. One significant change affects the constitution of groups. Under the original provisions, if A. holds 75 per cent of the share capital of B., and B. holds 75 per cent of the share capital of C., then C. cannot be a subsidiary of A. unless A. directly or indirectly owns other shares in C. A new sub-paragraph to paragraph 1 of the schedule allows A. and B. to join in electing that B. and C. are to be treated as a separate group. The sub-paragraph is as follows:

> '(2) Where at the beginning of the period of charge to the excess profits levy the conditions specified in paragraphs (*a*) to (*d*) of sub-paragraph (1) of this paragraph would have been fulfilled as respects any two or more bodies corporate but for the fact that one of those bodies corporate of which the others were subsidiaries (in this sub-paragraph referred to as "the intermediate owner") was itself a subsidiary of another body corporate resident in the United Kingdom (in this sub-paragraph referred to as "the ultimate owner") then, if the subsidiaries of the intermediate owner were not also subsidiaries of the ultimate owner, and the ultimate owner and the intermediate owner jointly so elect before the first day of January 1954:
>
> (*a*) the intermediate owner and its subsidiaries shall be deemed for the purposes of this schedule to form a group; and
>
> (*b*) the intermediate owner shall not, for the purposes of this schedule, be deemed to form a group with the ultimate owner or with the ultimate owner and any other bodies corporate.'

One of the 'consequential' amendments provides that money borrowed by one member of a group from another is not to qualify for the additional 4 per cent allowance.

A further concession is being made to companies operating in territory which the Japanese

occupied at any time in the years 1942 to 1945. It will be remembered that such companies may claim a standard based on the profits of 1949 and 1950. A new paragraph has been added to the Eighth Schedule, which directs how profits are to be computed for levy purposes. Where a company of the kind described above restores assets in former occupied territory and the expense is to be met, directly or indirectly, by the Crown or other authority, the expense is not to be deducted in arriving at profit. There may thus be a double benefit where the expense is incurred in a standard period and the compensation is received in a chargeable period – both will be excluded from the computation of liability.

Other beneficiaries of Governmental second thoughts are concerns producing metals, oil or asbestos, whose profits have increased as a result of stepping up production. If the Treasury certifies that an increase in output of oil, asbestos, or one of the metals is 'essential in the national interest' a company producing it can elect to have its profits computed on a special basis. The Solicitor-General gave the following example to illustrate the working of the new clause:

> 'Let us take a mining company whose normal output is 1,000 tons and normal profit is £50 a ton. Let us assume that it increases its output during the excess profits levy chargeable year to 1,200 tons and earns a profit during that period of £70 a ton. Thus, its excess profits are £34,000; that is, 1,200 tons at £70 a ton less 1,000 tons at £50 a ton. We can split that excess profit into the excess attributable to the increase in price, that is, 1,200 tons at £20 a ton, which equals £24,000, and the excess attributable to increase in output, which is 200 tons at £50 a ton, which equals £10,000.
>
> 'In the appropriate cases, that £10,000 will be excluded from the profits of the company as being in anticipation of future profits. The other figure of £24,000 is an ordinary excess profit and is properly chargeable to excess profits levy.'[1]

The new clause leaves it to the Treasury to lay down rules for ascertaining normal profit and additional output. Pleas were made in Committee for other extractive industries, notably sand and ballast, and the Government undertook to consider representations.

Clause 59 of the Bill applies to excess profits levy the profits tax anti-avoidance provisions of Section 32 of the Finance Act, 1951, which in turn were taken from the old excess profits tax. The new clause however provides for retrospective effect in a rather novel form. Under subsection (3) of Section 32 of the Finance Act, 1951, certain transactions are to be deemed to have been entered mainly to avoid tax if, having regard to the law in force at the time of the transaction, the main benefit from it might have been expected to be the reduction or avoidance of tax. This is vague enough to begin with, but the new clause adds further vagueness by directing that for the purpose of ascertaining the law in force

> 'the provisions of the Bill for this Act, and any amendments made therein before the passing thereof, shall be deemed to have been in force as from the introduction of the said Bill into the Commons House of Parliament or the making of the said amendments, as the case may be'.

This wording not unnaturally called forth criticisms and the Government undertook to reconsider it on the Report stage.

An attempt was made to repeal Section 468 of the Income Tax Act, 1952, which *inter alia* prevents companies from transferring their control abroad. The attempt failed but led to a revelation by the Chancellor that 300 applications for permission to emigrate had been granted and that only two applications had been refused.

The proposed exemption from estate duty of estates of members of the armed forces dying as a result of active or warlike service received the blessing of the Committee. Clause 62 reverses the decision in *Attorney-General v. St Aubyn*, by providing that the payment of money to a company shall be deemed to be a transfer of assets for the purpose of Section 46 of the Finance Act, 1940 (which charges the company with estate duty in certain cases where the transferor received benefits within five years of his death). Sub-clause (3) of the new clause is directed to avoiding double taxation where some of the shares in the company have been sold.

Clause 63, which extends the field for reduced *ad valorem* stamp duty from £1,950 to £3,450, is to come into force as soon as the Bill becomes law, instead of on August 1st. This will bring the change forward at least to July 12th next. Under the clause, the 1 per cent rate is extended from £1,500 to £3,000 in the appropriate cases. For similar transactions between £3,000 and £3,450 the rate will be 1½ per cent.

[1] *Hansard*, May 27th, 1952, Col. 1254.

INTERNATIONAL CONGRESS

THE months of hard work done by so many officials and members of the bodies sponsoring the Sixth International Congress on Accounting, 1952, are now nearing completion. The results will be seen during the week June 16th to 20th next, when nearly 3,000 members of the profession from all over the world will assemble in the Royal Festival Hall.

Coming from no less than thirty-six countries – as far apart as Peru and Finland, as Japan and Spain – those attending will hear five rapporteurs summarize thirty-five papers on five subjects written by forty authors. Many will also take part in the discussion, as over 100 are expected to speak for the limited time available to each of them.

In July 1933, the Fourth International Congress was held in London. It was an undoubted success as many of our readers will recall; indeed, to read the reports in *The Accountant* of that time makes one realize the high standard that was reached.

In one week's time many old friends will meet again with the same objects in view – to make the work of the profession of increasing value to the community – and many of the younger generation will see the duties of their profession in a far broader setting than can be visualized during the turmoil of daily work. That history will repeat itself, that this congress will be as successful and as helpful to the profession as its predecessors, none can doubt: our readers, knowing the extent to which their professional duties have increased during the last nineteen years, will realize that the proceedings will cover a far wider field, more subjects, greater intricacies and increased detail.

There will be many who must have the disappointment of being unable to attend. For them, as for all our readers, we shall record the proceedings as fully as we can. To look through our pages for July 1933 is to see a vivid picture of all that happened at the last congress in London. It is our object this time to offer a report that will be a worthy successor and which will be – by virtue of this increase in the duties of the accountant – a wider and fuller description of where the profession stands today and the direction in which it is progressing as it becomes of ever increasing value in the professional and business life of the world.

For those who will be attending the Congress, we shall be publishing and issuing without charge a daily newspaper containing sixteen or twenty pages. This will record the happenings of the day preceding publication, announce the programmes, include photographs and biographical notes of many delegates from overseas, photographs of the Congress officials, of the Presidents and Vice-Presidents of the sponsoring bodies, of personalities and of the daily proceedings. There will be full summaries of the business sessions, the banquet in Guildhall; in a word, all that happens, all that is 'news', both professional and lay, will be there for all who attend. In addition, there will be information about London and the English way of life which will interest our visitors.

The Accountant will offer its readers a similar record, also illustrated with photographs. We hope to report the summaries of all the papers, as spoken by the rapporteurs, to summarize the remarks of those who take part in the discussions and, so far as space allows during future weeks, to reproduce the papers by authors from the United Kingdom. Elsewhere in this issue we publish the names of the Congress officials, of members of the Council and Committees, of the accountancy organizations represented at the Congress, of authors of papers, details of the daily programme and other relevant information.

All our readers will want to know what their professional brethren in other parts of the world are thinking and doing. We hope that the record in our coming issues will offer them that information and thus be of practical value.

Thought and informed discussion are the basis of progress, but not all professional men can devote time to these alone. It is our intention that the reports and articles in our columns will offer to the busy professional man that information which he may wish to consider when the pressure of his duties allows.

May we end these introductory words by offering a very hearty welcome to all our visitors from overseas and by wishing all success to the deliberations that will take place during the momentous week of June 16th to 20th.

SOLVING CALENDAR PROBLEMS

by HAROLD WATKINS, M.B.E.

OF the several ways of smoothing out fluctuating time periods due to our varying months, and obtaining comparable figures between one month and the next, that based on the principle of rounded-off 4-week periods is doubtless most widely used.

The mere division of the year into thirteen 4-week periods instead of the conventional twelve calendar months is not, of course, an ideal solution, but it is a useful compromise. Its disadvantages are fairly obvious. The thirteen periods total only 364 days and the extra day has still to be dealt with. A trading account produced for 364 days is not strictly a trading account for a year.

A difficulty also is the discrepancy between the ends of the 4-week periods and the calendar dates, which in mid-year amounts to 14 days; and another disadvantage is the indivisibility of the number 13 which precludes level half-yearly and quarterly summaries.

A 21-day System

While the 28-day month rationalizes the weeks, it makes no allowance for holidays. Where the number of net work-days is a basic factor therefore, as in costing production, the straight sequence of 28 days falls down. Something else is required. It is found in the idea of 21-day periods variable in calendrical length but counted strictly in work-days. Its author is Mr Lawrence P. Jennings, of the Caterpillar Tractor Co, Peoria, Ill., who has described it as follows:[1]

> 'The 21-work-day accounting month, based on a 5-day week, Mondays to Fridays, is both simple in operation and sound in approach. In any ordinary year, after allowances are made for Saturdays, Sundays and six legal holidays, there are 255 working days which must be allocated over twelve working months. Simple mathematics discloses that there are 21·25 working days in each working month; common sense indicates that the 21 days will constitute an average work month provided that the extra fourth of a day is included in the vacation month.'[2]

The method is simplicity itself. Periods of 21 working days (i.e. excluding Saturdays, Sundays and holidays) are marked off the calendar up to the nearest full-period date to the general close-down; then, starting from December 31st, the same thing is done in reverse. Taking the year 1951 the Caterpillar Tractor Co's work calendar came out like this:

Month	*End of accounting period*	*Number of working day*
January	January 30th	21
February	February 28th	21
March	March 29th	21
April	April 27th	21
May	May 28th	21
June	June 27th	21
July	July 27th	21
August	August 30th	14
September	October 1st	21
October	October 30th	21
November	November 29th	21
December	December 31st	21

It will be seen how nearly the end-of-period dates coincide with the true ends of the months. The disadvantage of the scheme is the 'short' month of August, but this is calculated to fall at a time of least inconvenience.

A Mathematical Method

When it comes to statistical analysis by days in terms of months there is a new problem which cannot be solved by adjusting the calendar itself. Because our year of 52 weeks and a day (in leap year two days) must borrow the odd day(s) from the following year, no date can fall on the same day of the week in consecutive years. The result is that we have no fewer than twenty-eight different month-patterns, and four different week-end patterns. Any 30-day or 31-day month may have four Saturdays and four Sundays; or four Saturdays and five Sundays; five Saturdays and four Sundays; or finally five Saturdays and five Sundays. Weekdays can vary from 24 in a normal February to 27 in a 31-day month. And of course the same month will vary in its content of weekdays from year to year depending entirely on the day of the week on which it begins.

For some statistical purposes it is necessary to find an index which, by means of a simple sum, will give the measure of a monthly product for a given month in terms of time-work in any other month. An interesting solution is put forward by Mr Charles E. Armstrong, of the American Telephone and Telegraph Co, writing in the *Journal of Calendar Reform*.[3]

[1] *Bulletin of The National Association of Cost Accountants.*

[2] The Caterpillar Tractor Co closes for a summer holiday.

[3] *Journal of Calendar Reform* (World Calendar Association, 630 Fifth Avenue, New York 20) states: 'The practical procedures outlined by Mr Armstrong are the result of many years of study and were published by the *American Statistician* as a completely developed method for measuring and eliminating the effects of calendar shifts from series of monthly data.'

January						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

February						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

March						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

In contrast to the Jennings plan which is a comparatively simple device applicable especially to the five-day week, the Armstrong method is a scientific analysis of all of the days in all the months reduced to, as it were, a common denominator. Where week-ends have to be included in calculations these are converted to their equivalent in weekdays or work-days according to their time- or production-value.

'For example,' says Mr Armstrong, 'if Saturday is equal to 0·7 of a weekday, and Sunday equals 0·3, a 4-Saturday, 5-Sunday January would contain $4 \times 0{\cdot}7 + 5 \times 0{\cdot}3 + 22 = 26{\cdot}3$ equivalent weekdays. Dividing the January total by this figure would put the data on an equivalent day basis, and repeating the procedure for all months covered would eliminate the effects of calendar shift.'

The system proceeds to establish an index figure for any month based on percentage in which the average of 30-day and 31-day months, counting Saturday and Sunday as full equivalent days, is 100. Then a normal February has an index of 99·12, and *excepting only leap-year Februaries*, a month of any Saturday-Sunday pattern, and with any value for these days, can be given an accurate index figure. The following is the Armstrong formula:

Let a month with four Saturdays and four Sundays be an *a*-month; with five Saturdays and four Sundays a *b*-month; with four Saturdays and five Sundays a *c*-month; and five Saturdays and five Sundays a *d*-month. Then:

Index for an *a*-month

$$= 100\,\frac{4\ \mathrm{Sa} + 4\ \mathrm{Su} + 22{\cdot}66}{4{\cdot}38\ \mathrm{Sa} + 4{\cdot}38\ \mathrm{Su} + 21{\cdot}90}$$

Index for a *b*-month

$$= 100\,\frac{5\ \mathrm{Sa} + 4\ \mathrm{Su} + 21{\cdot}66}{4{\cdot}38\ \mathrm{Sa} + 4{\cdot}38\ \mathrm{Su} + 21{\cdot}90}$$

Index for a *c*-month

$$= 100\,\frac{4\ \mathrm{Sa} + 5\ \mathrm{Su} + 21{\cdot}66}{4{\cdot}38\ \mathrm{Sa} + 4{\cdot}38\ \mathrm{Su} + 21{\cdot}90}$$

Index for a *d*-month

$$= 100\,\frac{5\ \mathrm{Sa} + 5\ \mathrm{Su} + 20{\cdot}66}{4{\cdot}38\ \mathrm{Sa} + 4{\cdot}38\ \mathrm{Su} + 21{\cdot}90}$$

This procedure will result in a set of index figures of which the following are typical for all non-February months, for typical percentages of Saturday and Sunday work:

CALENDAR SHIFT INDEXES FOR VARIOUS RELATIVE VALUES OF SATURDAY AND SUNDAY

Percentage of weekday		*Indexes for all non-February months*			
Sat.	*Sun.*	*a*	*b*	*c*	*d*
100	100	100	100	100	100
100	50	100·67	100·67	98·91	98·91
100	0	101·45	101·45	97·64	97·64
80	50	100·96	100·24	99·15	98·43
80	0	100·79	101·01	97·86	97·07
60	50	101·28	99·78	99·41	97·91
60	0	102·17	100·54	98·09	96·46
50	50	101·45	99·54	99·54	97·64
50	0	102·37	100·29	98·22	96·14
40	40	101·79	99·43	99·43	97·07
40	0	102·57	100·03	98·34	95·81
20	0	103·00	99·49	98·61	95·10
0	0	103·47	98·90	98·90	94·34

The Simplest Solution

All this goes to show how complex is the application of the calendar to anything beyond everyday purposes, and how desirable it is that it should be rationalized. The simple solution seems to be the general adoption of one of the scientific reforms which have been put forward with varying vigour over the last fifty years and more. Most practical of these is the 12-month, equal-quarter calendar backed by the World Calendar Association. In this, the disturbing 365th day is made a dateless day at the end of December and treated as a universal holiday; and the leap-year day dealt with in the same way at the end of June each fourth year. It divides the year into four months of 31 days and eight of 30, running in regular sequence of 31, 30, 30 for each quarter. The quarterly calendar would appear as shown at the top of this page.

Every quarter is the same except that at the end of December there is a day which comes *between Saturday and Sunday* (which it is proposed to call Worldsday) and every fourth year a similar day at the end of June (called Leap Day). The year and each quarter begins on a Sunday and ends on a Saturday. Every month has exactly 26 weekdays. Only seven dates would change from present usage, and given a start when January 1st falls naturally on a Sunday (as will next occur in 1956) such a calendar would slide into use with no noticeable dislocation, and yet with immense convenience from the accounting and statistical points of view.

WEEKLY NOTES

The President and Vice-President of the Institute

Mr Thomas Buston Robson, M.B.E., M.A., F.C.A., was elected President of The Institute of Chartered Accountants in England and Wales, and Mr James Blakey, F.C.A., was elected Vice-President, at a meeting of the Council of the Institute held last Wednesday.[1]

As Vice-President, Mr Robson has fulfilled many engagements during the past year, and is well known to members of the Institute and of the profession.

He is a member of the Board of Trade Accountants Advisory Committee on the working of the Companies Act, and of the Central Valuation Board for the Coal Industry which, on nationalization, apportioned the global sum among the coal districts. He was also a member of the Committee on the Amendment of the Census of Production Act which reported in 1945. It will be recalled that he gave evidence on behalf of the Institute before the Cohen Committee on Company Law Amendment and before the Tucker Committee on the Taxation of Trading Profits. He also gave evidence on behalf of the auditor who was a defendant in the *Crittall* case.

At the 1949 autumnal meeting of the Institute he read a paper entitled 'Fifteen months' experience of the Companies Act, 1948', and has given numerous other papers on professional subjects. He is the author of *Consolidated and Other Group Accounts* and was responsible in 1936 for the third edition of *Holding Companies and their Published Accounts*, on the preparation of the second edition of which he had assisted the late Sir Gilbert Garnsey, K.B.E., F.C.A.

The son of a Scottish father and an Australian-born mother, Mr Robson was born and brought up in Newcastle upon Tyne, and was at school at Rutherford College. His university studies were interrupted by the 1914–18 war, during which he served with the Royal Garrison Artillery in the Macedonian campaign and was mentioned in dispatches and awarded the M.B.E. After demobilization in 1919 he returned to what is now King's College, Durham University, and took his degree in modern history there in the following year. In August 1920 he was articled to Mr H. A. Sisson, O.B.E., M.A., F.C.A., a partner in the firm of Sisson and Allden, Chartered Accountants (now Winter, Robinson, Sisson and Benson), of Newcastle. In November 1922 he passed the Final examination of the Institute, gaining the W. B. Peat Gold Medal and Prize and Second Certificate of Merit.

He joined the staff of Price Waterhouse & Co at their London office in 1923 and eleven years later, in 1934, was admitted to partnership. He is a partner in a number of their oversea firms and is a chartered accountant of Ontario and India, besides being an international associate of the American Institute of Accountants.

His Institute activities have been many. He was elected a member of the Council in 1941, and has served on all except two of its committees. He is a representative of the Institute on the Council of the Sixth International Congress on Accounting. He has also represented the Institute at meetings of accountants in North America and on joint committees dealing with matters affecting the profession as a whole in this country. He was appointed a Vice-President of the Chartered Accountant Students' Society of London in 1951.

For many years Mr Robson was an active worker in the Boy Scout movement: he is a Vice-President of the London Scout Council, and an elder of St Columba's Church of Scotland, of which his father-in-law, the late Dr Archibald Fleming, was Minister for many years.

Mrs Robson is also well known to members of the Institute, as she was with her husband during the Institute's autumnal meetings in Harrogate and Torquay, and accompanied him on his visits to North America. She is a member of the Ladies' Committee of the International Congress.

It gives us great pleasure in this issue to present to our readers a reproduction of a recent photograph of the new President of the Institute.

Mr Blakey is the senior partner in the firm of Litton, Pownall, Blakey and Higson, Chartered Accountants, of Manchester, which was founded in 1864 by the late Mr William Butcher. Articled to his late father, a partner in the firm, in 1908, Mr Blakey was admitted an associate of the Institute in 1913, being elected a fellow in 1922, and a member of the Council in 1937. An active member of the committee of the Manchester Society of Chartered Accountants since 1921, he was honorary secretary for six years and president for the years 1933 and 1934. It was during his presidency of the Society that an autumnal meeting of the Institute was held in Manchester; at that time the President of the Institute, Mr Arthur Cutforth, C.B.E., F.C.A., (now Sir Arthur Cutforth), paid a special tribute to Mr Blakey for the manner in which he had carried out his arduous duties and heavy responsibilities.

Since 1938, Mr Blakey has been a member of the Applications Committee of the Council (Chairman since 1950), and since 1943 a member of the Investigation Committee (Chairman since 1949); he is also a member of the General Purposes and District Societies Committees.

He was President of the Manchester Chartered Accountants Students' Society from 1936 to 1937.

[1] A report of the speeches made at this meeting will be published in next week's issue.

Cotton Commission's Price Policy

The sharp drop in cotton prices around the middle of last year had a serious effect on the financial results of the Raw Cotton Commission's trading year which ended at July 31st, 1951. The accounts for this period were published last week and they show a trading profit of £177,390 compared with £9,938,523. After providing for the redemption of Board of Trade advances there was, indeed, a loss of £131,011 compared with a net profit in the previous year (and after provision for taxation) of £4,564,826. Whatever may be said in praise or blame of the Commission's operations in that year, it has clearly provided a cushion of magnitude for the industry at a time of wide price movements in the Lancashire textile industry's raw material.

One of the most interesting sections of the Commission's report deals with its price policy. There is space here only to summarize very briefly the issues involved. The year's trading, says the report, was dominated by the smallness of the 1950–51 United States cotton crop. The American Government decided to introduce an allocation system, and the Commission bought 'substitute' cotton elsewhere to cover anticipated demand. In this way, these American-type cottons increased in price, although U.S. cotton was sold at a controlled price. The Commission decided to fix its selling price for alternative growths in relation to their spinning value, the average being such as to equal their average replacement cost.

There was every indication that the new U.S. crop would be a good one and prices consequently much lower when delivery started. To bridge the gap between the final off-take of the old crop and first marketings of the new, the Commission decided to lower its prices on the old crop and not to quote for the new until it was actually available. In this way it was hoped to offset, at least partially, lack of trading in a bear market. The whole problem is an interesting, if extreme, case of some of the issues involved with replacement cost of physical assets.

Rayon Output Falls

In April 1951, the rayon industry was faced with severe cuts in output owing to an anticipated shortage of sulphur. These heavy cuts never materialized but exactly a year later, production was cut back for an entirely different reason, namely, smaller demand. *Plus ça change* . . . may be an apt tag for the rayon industry these days.

It had been known for some time that the industry had made cuts in output. Now that the figures for April are available, it is seen to have been a severe one, with little prospect of immediate relief. Production was reduced from 29·7 million lbs. (including both continuous filament and staple fibre) in March to 16·6 million lbs. in April. This amounts to a drop of 44 per cent and the industry is now running at a level prevalent throughout 1947.

Too much should not be read into a sudden decline for it is difficult to read any sound interpretation into one month's figures. How far rayon has been built up as stock in the weaving industry and by rayon producers themselves, the trend of the export market and the extent to which industrial uses of rayon can offer a springboard to more stable output are issues which are as yet by no means clarified by the April statistics.

Colonies' Dollar Earnings

Official statistics have already made it quite clear in general terms that the colonies played an important part in holding the Sterling Area's retreating line and yawning dollar gap in 1951. More detailed figures have now been made available of their performance last year and the figures are particularly interesting since certain of them have been made available by regions.

The surplus earned over the whole year was $455 million, compared with $410 million in 1950. Most of the colonial territories were, in fact, earning a surplus in the second half of last year when the deficit for the Sterling Area as a whole was beginning to assume runaway proportions. The state of the trade balances in each half of the year compared with 1950 is set out in the following table:

	£ million		
	1950	1951 (1st half)	1951 (2nd half)
Non-sterling	186	149	−31
Sterling..	6	75	24

The deficit with the non-sterling area in the second half of the year is more than accounted for by a £37 million debit balance accumulated by Hong Kong. The much better figures for the first half of the year in all colonial territories are due to the seasonal nature of the export trade in cocoa from West Africa and to the serious decline in rubber and tin exports to the United States in the second half of the year.

An approximate calculation of the size of the main colonial regions' sterling assets is now available. The figures have been rounded off to the nearest £5 million.

	Dec. 31 1950	Dec. 31 1951
Total	850	1,085
West Africa	255	330
East Africa	140	165
Malaya (and neighbouring territories)	165	250
Hong Kong	95	115

It will be observed that the largest balances and the most rapid rates of accumulation were in areas where political consciousness is developing most rapidly among the non-white populations – peacefully so in West Africa, less so in Malaya.

President-Elect of the Liberal Party

Mr Lawrence W. Robson, F.C.A., F.C.W.A., a member of the Council of the Institute of Chartered Accountants in England and Wales and a past president of the Institute of Cost and Works Accountants, has been elected President-Elect of the Liberal Party. Mr Robson is senior partner in the firms of Blackburns, Robson, Coates & Co, Chartered Accountants, and Robson, Morrow & Co.

FINANCE AND COMMERCE

With no lifting of the many uncertainties confusing the situation, stock markets remain difficult and touchy. Although there is only a very small amount of business passing, the thinness of conditions makes for wide price fluctuations as jobbers, unprepared to take any decided view, endeavour to keep their positions as even as possible. The evasive action that this requires is responsible for making price movements out of touch with the volume of turnover.

Inflation Profits

An interesting treatment of profits arising from stock price fluctuations is seen in the accounts of The Home & Colonial Stores Ltd. Sir Lancelot Royle, chairman of the company, writes in his review of the accounts that, 'During the year a profit estimated at £411,000 arose, as a result of exceptional fluctuations in price levels of our stock-in-trade, and after making provision for £216,789 (United Kingdom taxation thereon) the balance of £194,211 has been transferred to contingencies reserves which will be available to meet any future downward trends or other contingencies which may arise. Your board feels that this is the correct and proper method of dealing with such matters in these exceptional times.

'The profits on our retail trading, apart from the fortuitous profit just referred to, show a reduction on the previous year.'

The following extract from the accounts gives this item of inflation profit in its accounting context:

Publishing Sales

We notice on the board of The Brush Electrical Engineering Co Ltd, whose accounts we reprint this week, the name of Mr F. R. M. de Paula, C.B.E., F.C.A. Mr de Paula, it will be recalled, was among those witnesses before the Cohen Committee who suggested that the publication of turnover figures should be made part of company law. The idea proved rather too advanced for its adoption by the Committee, but we are glad to see that quite a number of companies are beginning their revenue accounts at the sales figure which is the source of profit.

This voluntary extension on legal requirements reminds us very much of the peaceful revolution in the form of company accounts that we fostered in the 1930s. The law in relation to company accounts was then very much behind the times. What has been accomplished in the 1949 Act, however, should not be accepted as finality. In this publication of a sales figure alone, there is room for a great voluntary movement. We hope serious consideration will be given to this by all company accountants.

Money Market

Treasury bill applications totalled £307,095,000 on May 30th and with £240 million of bills offered the market obtained 71 per cent of requirements. The average rate was £2 7s 8·25d per cent against £2 7s 7·94d the previous week and was the highest rate since the increase in the bank rate to 4 per cent. This week's offer is £240 million.

THE HOME & COLONIAL STORES LTD AND ITS SUBSIDIARIES

Consolidated Profit and Loss Account for the 53 weeks ended January 5th, 1952

1950 (52 weeks) £	£		£	£
	2,036,076	**Profit on Trading**		2,103,061
		After deducting the following items:		
401,655		Depreciation and amounts written off	445,388	
123,698		Reserves towards increased cost of renewal of Fixed Assets and for Development	133,400	
—		Provision against possible loss on Overseas stocks	74,537	
69,249		Interest on Debentures and Mortgages	70,944	
47,941		Emoluments of Directors of The Home & Colonial Stores Ltd in respect of their whole-time services. (Including Fees £1,500)	52,075	
118,276		Allocations to Staff Benevolent and Provident Funds	117,434	
—		Stamp Duty on Increase in Authorized Capital	12,500	
£760,819				£906,278
		Interest and Dividends		
20,890		Government Securities etc.	14,649	
2,004		Tax Reserve Certificates	1,256	
2,576		Trade Investments	4,778	
	25,470			20,683
	2,061,546			2,123,744
		United Kingdom Taxation estimated to be payable on the above profits		
416,545		Profits Tax	561,210	
915,757		Income Tax	909,015	
	1,332,302			1,470,225
	729,244			653,519
		Estimated Profits arising from exceptional price fluctuations	411,000	
		Less United Kingdom Taxation thereon	216,789	
			194,211	
		Less Transferred to Contingencies Reserves	194,211	
	—			—
	54,455	*Add* **Adjustment of Taxation and other provisions in respect of previous years**		61,789
	£783,699	**Net Profit of the Group**		£715,308

THE BRUSH ELECTRICAL ENGINEERING CO LTD AND ITS SUBSIDIARY COMPANIES

Statement 1

Consolidated Profit and Loss Account for the Year ended December 31st, 1951

**Note. – This Account should be read in conjunction with the explanatory notes appearing on pages 8 and 9.*

1950 £		£	£
19,995,431	**Sales of Products**		24,148,594
	Deduct:		
17,528,306	**Cost of Goods Sold**, including all expenses of production, selling and administration, other than the items deducted below		21,475,215
2,467,125			2,673,379
1,444	Profits, *less* losses on realization of Fixed Assets		19,329
29,400	Dividends Receivable		790
2,497,969			2,693,498
	Deduct:		
	Provisions for Depreciation and amounts written off Fixed Assets:		
56,281	Land and Buildings	74,553	
331,205	Plant and Machinery etc.	431,069	
181,076	Loose Tools	159,738	
171,352	Bank, Mortgage and Other Interest (gross)	233,449	
9,978	Auditors' Remuneration	14,181	
102,007	Directors' Emoluments (details in Note 3)	112,884	
851,899			1,025,874
1,646,070	**Net Profit for the Year,** subject to Taxation		1,667,624
46,791	Profit adjustments arising from previous years		—
1,692,861			1,667,624
	Deduct:		
85,000	Subsidiary Company's additional provision for depreciation		—
1,607,861			1,667,624
	Deduct:		
	Provisions for Taxation thereon:		
	United Kingdom:		
682,192	Income Tax	670,904	
258,300	Profits Tax	323,000	
940,492		993,904	
—	Other Countries	85,168	
940,492			1,079,072
667,369	**Net Profit after Taxation**		588,552
	Less:		
40,625	Proportion of subsidiaries' profits attributable to outside shareholders' interests	17,069	
9,957	Proportion of subsidiaries' profits earned prior to acquisition by Holding Company (Note 5)	27,486	
50,582			44,555
£616,787	**Net Profit attributable to The Brush Electrical Engineering Co Ltd**		£543,997

* These notes are not reproduced. – Editor.

Statement 2

Consolidated Appropriation Account for the Year ended December 31st, 1951

**Note. – This Account should be read in conjunction with the explanatory notes appearing on pages 8 and 9.*

1950 £		£	£
616,787	Net Profit attributable to The Brush Electrical Engineering Co Ltd, per Consolidated Profit and Loss Account		543,997
	Deduct:		
	Subsidiary Company's Appropriation:		
17,404	Proportion of General Reserve transfer attributable to Holding Company's post-acquisition revenue	—	
	Holding Company's Appropriations:		
400,000	General Reserve	200,000	
	Dividends, less Income Tax, for the year 1951:		
30,250	Preference, 5½ per cent .. .. (Note 4)	29,219	
	Ordinary:		
52,800	Interim 4 per cent	50,400	
79,200	Proposed Final, 6 per cent	75,600	
		355,219	
	Less Over-provision of dividends for the year 1950, due to the change in the Standard Rate of Income Tax	3,600	
579,654			351,619
37,133	Unappropriated balance of profit for 1951 added to reserves		192,378
	Add:		
	Balances brought forward, January 1st, 1951:		
19,512	Holding Company	58,345	
34,766	Subsidiary Companies	33,191	
125	Unappropriated Profits of Subsidiaries not consolidated previously ..	14,447	
54,403			105,983
	Balances carried forward, December 31st, 1951:		
58,345	Holding Company	72,989	
33,191	Subsidiary Companies .. .. (Note 2)	225,372	
£91,536			£298,361

Statement 3

THE BRUSH ELECTRICAL ENGINEERING CO LTD AND ITS SUBSIDIARY COMPANIES

Consolidated Balance Sheet, December 31st, 1951

* Note. – *This Balance Sheet should be read in conjunction with the explanatory notes appearing on pages 8 and 9*

1950 £		Authorized £	Issued and Fully Paid £
	Capital of the Brush Electrical Engineering Co Ltd (Note 4)		
1,000,000	5½ per cent Cumulative Preference Stock, £1 Units	1,000,000	1,000,000
2,400,000	Ordinary Stock, 5s Units	2,400,000	2,400,000
—	Shares of no specified class	600,000	—
3,400,000		£4,000,000	3,400,000
	Reserves:		
	Capital:		
212,496	Share Premium Account	212,496	
—	Surplus on professional revaluation in 1951 of Group United Kingdom freehold and leasehold works and other capital surpluses; less premiums on acquisition of subsidiaries, net (Note 5)	613,502	
212,496			825,998
	Revenue:		
1,417,404	General Reserve	1,617,404	
	Unappropriated Profits:		
58,345	The Brush Electrical Engineering Co Ltd	72,989	
33,191	Subsidiaries (Note 2)	225,372	
1,508,940			1,915,765
5,121,436	**Total Capital and Reserves Attributable to The Brush Electrical Engineering Co Ltd**		6,141,763
927,083	**Interest of Outside Shareholders** in the share capital, reserves and undistributed profits of subsidiaries		647,807
663,660	**Reserve for Future Taxation**		697,680
	Due to Bankers:		
2,094,490	Secured	4,463,064	
9,094	Unsecured	115,837	
2,103,584		4,578,901	
275,661	**Loans on Mortgage,** secured on Freehold and Leasehold Residential Properties	47,270	
2,379,245			4,626,171
	Current Liabilities and Provisions:		
4,104,072	Trade and Other Creditors (including £356,606 in respect of Hire-purchase instalments)	5,818,875	
657,270	Bankers' advances against goods invoiced and customers' acceptances	786,453	
—	Bills Payable	310,729	
160,691	Advance payments by Customers on account of Contracts in hand	914,852	
—	Short-term loans	135,961	
1,788	Subsidiaries not consolidated, on current accounts	—	
	Provisions:		
125,522	Turbine Reconstruction Programme	89,549	
90,853	Maintenance under Guarantees	52,875	
1,282,482	Current Taxation	2,075,062	
7,562	Accrued Dividend on Preference Stock, less Income Tax (Note 4)	7,219	
79,200	Proposed Dividend on Ordinary Stock, less Income Tax	75,600	
6,509,440	**Total Current Liabilities and Provisions** (Notes 6 and 7)		10,267,175
£15,600,864			£22,379,796

1950 £		£	£
	Fixed Assets, as summarized in Statement 5:		
2,168,609	Freehold and Leasehold Works		3,278,734
604,767	Freehold and Leasehold Residential Properties		119,393
1,887,510	Plant and Machinery (including Plant and Machinery on Hire-purchase), Office Equipment and Motor Vehicles		2,611,602
54,092	Loose Tools, Manufacturing Rights and Designs		166,419
4,714,978	**Total Fixed Assets**		6,176,148
	Subsidiary Companies not Consolidated:		
155,844	Shares, at cost		—
	Trade Investments:		
	Shares:		
	Quoted, at Market Value	1,512	
	Unquoted, at Directors' valuation	130,250	
117,763		131,762	
—	Trade Advances	121,220	
117,763			252,982
	Current Assets:		
5,897,574	Stocks and Work-in-Progress, as valued by the Managements	10,072,970	
320,971	*Deduct* Deposits and amounts received or invoiced on account	843,925	
5,576,603		9,229,045	
33,789	Expenditure to date on Tube Wells in progress in India £1,583,983; *Deduct* Amounts invoiced on account 982,157	601,826	
4,154,391	Trade and Other Debtors, Bills Receivable, and Payments in Advance	5,885,496	
100,000	Tax Reserve Certificates	61,487	
640,094	Cash at Bank and in Hand	172,812	
10,504,877	**Total Current Assets**		15,950,666
107,402	**Premiums on Acquisition of Subsidiaries, net, less capital surpluses**		—
£15,600,864			£22,379,796

* These notes are not reproduced. – Editor.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

An Appeal for Simple Wording

SIR, – There seems to be a growing tendency for some writers on accounting subjects to clothe their messages in such obscure and doctrinaire language and formulae as to render them largely meaningless to readers of ordinary intelligence. As one who endeavours to follow the results of research and development in accounting, might I appeal to authors of books and papers and sometimes of letters in your journal to avoid 'words of learned length and thund'ring sound' and to bear in mind the following extract from *Plain words: a guide to the use of English*, by Sir Ernest Gowers –[1]

> 'Use no more words than are necessary to express your meaning, for if you use more you are likely to obscure it and to tire your reader. In particular do not use superfluous adjectives and adverbs and do not use roundabout phrases where single words would serve.
>
> 'Use familiar words rather than the far-fetched, for the familiar are more likely to be readily understood.
>
> 'Use words with a precise meaning rather than those that are vague, for they will obviously serve better to make your meaning clear; and in particular prefer concrete words to abstract, for they are more likely to have a precise meaning.'

Yours faithfully,

London, EC2. R. KETTLE.

[1] H.M.S.O. or through any bookseller 2*s* 0*d* net.

World-wide Co-ordination for Accountants

SIR, – If one makes time to read the official organs and journals of recognized accountancy bodies from various parts of the world, and to note the change in subjects discussed at congresses of recent years, at least two things become apparent. Firstly, that the initial phase in the development of accountancy as a profession has ended and the next phase has begun; secondly, that the time has arrived for greater co-ordination in solving accountancy problems and sharing techniques.

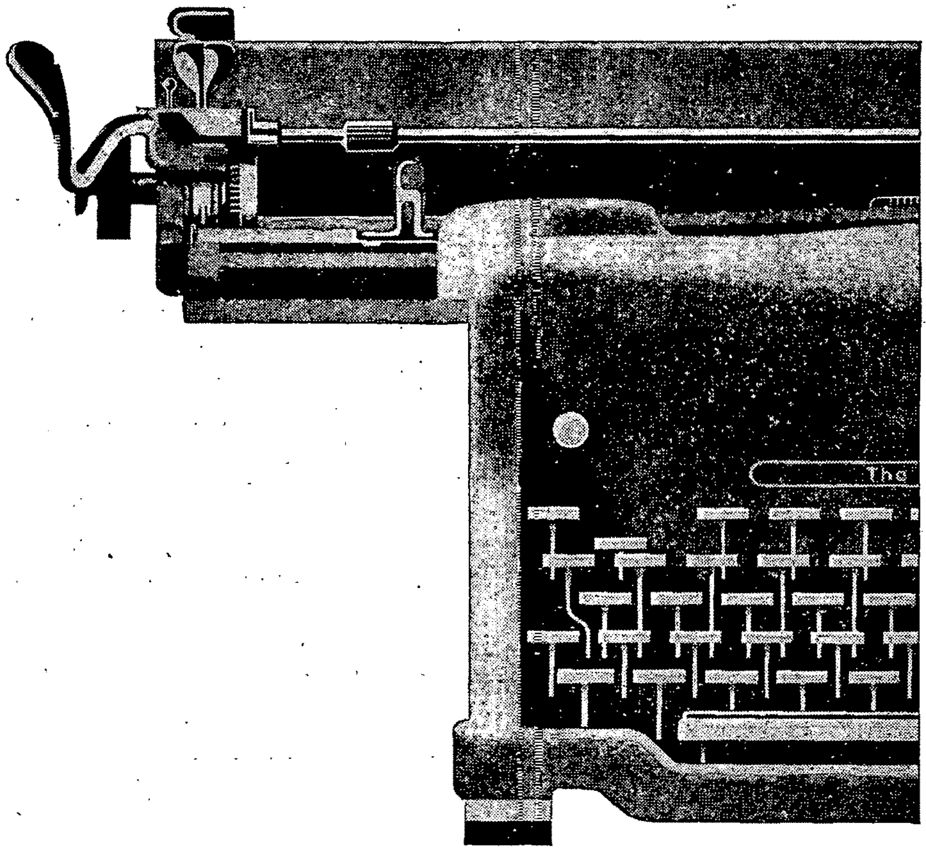
Broadly, accountancy as we know it today came into prominence with the rise of secondary industry. When the blacksmith changed to engineer, so did the book-keeper develop into an accountant in his wake. Since this development was extremely rapid (assisted by two world wars and consequent complex taxation laws), it is only natural that accountants have been almost totally preoccupied with their techniques until now. This present respite, what there is of it, is the first time accountants have been able to really start organizing their calling from a truly professional standpoint. This is apparently the period when the function of accountancy will be clarified. From it the accountant will emerge with a distinct service to offer, separate from lawyers, economists, secretaries and statisticians. This will be the period when the written and unwritten laws will be formulated – when a real philosophy of accountancy will be developed.

That accountants must enter the struggles of this second developmental phase with a will is urgent. The tremendous trust that has already been placed in the profession by governments and the public is far greater than the pioneer accountants expected in their wildest dreams. (Had they known, this would have been in the nightmare category without doubt.) It is therefore essential that we do everything in our power to ensure that this trust is not betrayed, for if it is, we shall never regain the position that qualified accountants hold today.

In many respects the development of accountancy as a profession has created problems strangely similar, not to law as one might expect, but to medicine. The field of knowledge required by the general practitioner is so vast and is changing so rapidly that it is all he can do to keep himself and his client informed regarding latest methods. The age of the specialist has already arrived in many spheres of accounting responsibility, although the ethics of specialist procedure have not been defined like they have in medicine. The extremely confidential nature of accountancy work needs a training and philosophy equivalent to medicine. Furthermore the increasing risks and responsibilities encountered by accountants, particularly those in practice, demand more protection from the law and greater loyalty from colleagues than they receive at present. Where would medicine be if such conditions still prevailed?

These professional problems are being tackled bravely enough, particularly by accountants in the United States; but there is not sufficient co-ordination about it. In some countries, accountants are beginning to tackle problems which have already been solved elsewhere. Some have discarded theories in which others are beginning to interest themselves. The major problem of terminology is being treated nationally and not on a world basis. Numerous national societies and associations of accountants are worrying and working in their own spheres, without sufficient regard for what others are worrying about and doing. There is some co-ordination, of course; but is there enough?

For a long time it has been the custom for the medical profession to share discoveries and techniques with the rest of the world – indeed we, the patients, would be the losers if it were not so. Has not the time come for accountants to do the same? It is depressing to read the frequent gems appearing in various accounting periodicals, and to realize that they are made available only to the limited number of readers of those particular publications, the majority of whom will forget them anyway. They are filed away and



lost. It seems such a waste of effort and contrary to the spirit of research.

Perhaps it is too early to start talking of a world co-ordinating body, or world association of accountants; but we could be thinking about it. Airways, postal facilities and many other bodies are firmly co-ordinated on a world basis. It seems to me that if the future function of accountancy is to be as important as we believe, no effort should be spared to establish its techniques, its etiquette, and its philosophy at a world-wide standard.

The provisional International Commission for the study of an international chart of accounts, in Brussels, has made a start, but more in the field of technique. A world body co-ordinating accountancy theory and philosophy is now a possibility and a need.

While the Sixth International Congress is in session, it may be possible for someone to find out how the delegates from countries outside the British Commonwealth feel about it.

Yours sincerely,
Adelaide, South Australia. K. L. MILNE.

Managing Director's Commission

Sɪʀ, – I should like to be allowed to reply to 'R. S.'s' criticism in your issue dated May 24th.

'R. S.' says that the expression 'the first £10,000 of net profit' must mean such greater sum as, after deduction of the appropriate commission, leaves a clear sum of £10,000. He will no doubt be surprised to learn that this statement, instead of contradicting what I have said, is in accordance with it. It would seem that 'R. S.' has misread my letter published on May 10th, fastened on a point on which I did not criticize his solution, and missed the point on which I did.

If he reads my letter again, he will see that my point of criticism was not that he showed the 5 per cent commission as being *paid out of* a larger sum than £10,000 – my own solution implies that it must be – but that he showed it as *calculated on* a larger sum than £10,000. In other words, he has contravened the provisions of the service agreement by taking 5 per cent of an amount *before* charging the 5 per cent commission, instead of 5 per cent of the amount left *after* charging the 5 per cent commission. My contention is that his equation should have been expressed as follows (£x being the amount which leaves £10,000 after payment of the 5 per cent commission):

$$£x - £5/105x = £10{,}000$$

£x would then work out to £10,500, so making the commission £500, or 5 per cent of the £10,000 net profit left after charging the commission.

It will be noted that the result now obtained satisfies us both. It agrees with my solution and also with 'R.S.'s' statement that the first £10,000 of net profit must be such greater sum as, after deduction of the appropriate commission, leaves a clear sum of £10,000.

Yours faithfully,
Boston, Lincs. LEONARD HUGHES.

Joint Venture: Division of Profits

We give below a further selection from the large number of letters we have received on this subject – Eᴅɪᴛᴏʀ.

Sɪʀ, – It would appear from the framing of the agreement quoted in the letter from 'A.C.A.', published in your issue of May 24th, that the parties thereto had contemplated the calculation of the division of profits being made in two stages.

First, the profits before charging manager's commission are divided in the proportions laid down in the agreement. The manager's commission is then calculated on B.'s share and deducted from the total profits, and the balance is then divided again in the agreed proportion.

According to a strict interpretation of the agreement, the manager's commission should be taken into account in computing B.'s share, upon which the commission should then be calculated. This appears to be impossible, and it is suggested that the above method is both simple and keeps as close to the original agreement as possible.

Yours sincerely,
NOEL WARD, A.C.A.
Woodford Green, Essex.

Sɪʀ, – Referring to 'A.C.A.'s' letter in your issue of May 24th, I, too, read with interest the correspondence following the letter from 'Puzzled Calculator'.

In 'A.C.A.'s' problem, however, I do not see any ambiguity. It would appear to me that the manager's commission is a charge against the profits of the venture and that it must be 5 per cent of the share due to B. company.

The division is, therefore, as follows:

Let B = Amount due to B. company
and C = Commission due to manager (which is 5 per cent, i.e. 1/20th of B).
Then B =

$$£5{,}000 + 1/3\text{rd}\ (£15{,}273{\cdot}196 - C) = £10{,}091{\cdot}065 - C/3$$
$$\therefore 20C = £10{,}091{\cdot}065 - C/3$$
$$60C = £30{,}273{\cdot}195 - C$$
$$61C = £30{,}273{\cdot}195$$
$$C = £496{\cdot}282$$

	£	s.	d.
∴ Manager's commission (nearest penny)	£496	5	8
B.'s share (20 × £496·282)	9,925	12	9
A.'s share (balance)	14,851	5	6
	£25,273	3	11

Yours faithfully,
Chester. A. V. JONES.

Sɪʀ, – The problem of 'A.C.A.', in your issue of May 24th, seems to differ from that of 'Puzzled Calculator' in one important respect. The terms of the director's service agreement were (to judge by the subsequent correspondence) ambiguous. The phrase in the joint venture agreement which evidently troubles 'A.C.A.', namely 'in arriving at the division of profit', is not ambiguous – it is simply meaningless as it stands.

One arrives, surely, not 'at a division of profit',

but at a profit divisible (between A. and B.). Thus, I suggest, the only interpretation which can be placed on this part of the agreement is that 'the manager's commission shall be charged in arriving at the profit divisible between A. and B.'

Having arrived at this profit, one is told by earlier provisions of the agreement precisely how it shall be divided. The calculation is then straightforward. Where *C* is the commission:

C = 1/20th [£5,000 + 1/3rd (£15,273 3*s* 11*d* − *C*) − *C*]
 = £473 0*s* 4*d*.

This leaves a profit, after charging the commission, of £24,800 3*s* 7*d*, divisible as follows:

Total £	*s*	*d*	*A.* £	*s*	*d*	*B.* £	*s*	*d*
10,000	0	0	5,000	0	0	5,000	0	0
14,800	3	7	9,866	15	9	4,933	7	10
£24,800	3	7	£14,866	15	9	£9,933	7	10

B.'s share less the manager's commission is thus £9,460 7*s* 6*d*, 5 per cent of which is £473 0*s* 4*d*.

'A.C.A.' presumably had in mind the possibility of charging an appropriate amount of the commission against the first £10,000, but I cannot see that this treatment (which gives A. £14,906 15*s* 2*d*, B. £9,895 4*s* 9*d* and the manager £471 4*s* 0*d*) is in any way implied in the agreement.

Yours faithfully,
ANTHONY W. RAYNER.
Great Missenden, Bucks.

SIR, – I think the share of profits and manager's commission in the joint venture problem submitted by 'A.C.A.' in your issue of May 24th can be ascertained as follows:

Let *x* represent the commission due to the manager.
Then B.'s share is £5,000 + ⅓(£15,273 3*s* 11*d* − *x*)
and
x = 1/20th of £5,000 + 1/20th [⅓(£15,273 3*s* 11*d* − *x*) − *x*]
 = £250 + £254 11*s* 1*d* − 4/60ths *x*
 = £473 0*s* 5*d*.

A.'s share
 = £5,000 + ⅔(£15,273 3*s* 11d − £473 0*s* 5*d*)
 = £14,866 15*s* 8*d*.

and B.'s share
 = £5,000 + ⅓(£15,273 3*s* 11*d* − £473 0*s* 5*d*)
 = £9,933 7*s* 10*d*.

The manager's commission can be proved by deducting the commission from B.'s share of profits, viz. £9,933 7*s* 10*d* − £473 0*s* 5*d*, and calculating 5 per cent thereon.

Yours faithfully,
Leamington Spa. J. PRICE, A.A.C.C.A.

SIR, – In reply to 'A.C.A.' (May 24th) I suggest that the profits of £25,273 3*s* 11*d* should be divided as follows:

Assume the manager's commission to be £*x*.

Since this is equal to 5 per cent (i.e. 1/20th) of B.'s share of the profit after charging the commission, it must also be equal to 1/21st of B.'s share *before* charging the commission, and the value of *x* can be found by solving the equation:

$$x = \frac{\text{£}5{,}000 + 1/3\text{rd } (\text{£}15{,}273\ 3s\ 11d \textit{ less } x)}{21}$$

from which it will be found that *x* = £473 0*s* 4*d*.

The profit available for division between A. and B. is thus reduced to £24,800 3*s* 7*d*, allocated:

	A. £	*s*	*d*		B. £	*s*	*d*
First £10,000 ..	5,000	0	0		5,000	0	0
Balance:							
£14,800 3*s* 7*d* (2/3rds)	9,866	15	9	(1/3rd)	4,933	7	10
	£14,866	15	9		£9,933	7	10

and the manager's commission of £473 0*s* 4*d* is equal to 5 per cent of B.'s share after charging that commission, i.e. 1/20th of £9,460 7*s* 6*d*.

To summarize the above figures:

	£	*s*	*d*
A.'s share	14,866	15	9
B.'s share	9,933	7	10
Manager's commission	473	0	4
Total profits	£25,273	3	11

This problem is similar to one which I encountered some years ago, in which a commission was payable on profits after deducting (*inter alia*) profits tax, although the commission itself was an allowable expense in computing the company's profits tax assessment.

Yours faithfully,
M. BARRADELL, A.C.A.
London, N10.

SIR, – I would suggest the following solution of the problem put forward in the issue of May 24th by 'A.C.A.':

Let A.'s share of the profits be represented by £5,000 + *x*

Then B.'s share of the profits will be $\text{£}5{,}000 + \frac{x}{2}$

and the manager's share will be $\dfrac{\text{£}5{,}000 + \frac{x}{2}}{20}$

The total of the three shares is £25,273 3*s* 11*d*.

i.e. $\text{£}5{,}000 + x + \text{£}5{,}000 + \frac{x}{2} + \frac{\text{£}5{,}000}{20} + \frac{x}{40}$
 = £25,273 3*s* 11*d*

i.e. $x + \frac{x}{2} + \frac{x}{40}$ = £25,273 3*s* 11*d* — £10,250 0*s* 0*d*

i.e. $\frac{61x}{40}$ = £15,023 3*s* 11*d*

i.e. *x* = £9,851 5*s* 6*d*

Accordingly,

	£	*s*	*d*		£	*s*	*d*
A.'s share is	£14,851	5	6	i.e. £5,000 +	£9,851	5	6
B.'s ,,	9,925	12	9	i.e. £5,000 +	4,925	12	9
The manager's share is	496	5	8	i.e. 5 per cent of	9,925	12	9
Total	£25,273	3	11				

Yours faithfully,
W. L. SPALDING.
Epping, Essex.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases.*

Commissioners of Inland Revenue *v.* Chappie Limited

In the High Court of Justice (Chancery Division)
April 30th, 1952
(Before Mr Justice DANCKWERTS)

Profits tax – Director-controlled company – Loan – Whether amount applied for benefit of any person – Finance Act, 1947, *Sections* 35, 36 (1) (*c*).

The respondent, a company incorporated in England, was a director-controlled company, and some of its shares were held by an Eire company. A call was made by the respondent on the Eire company in respect of these shares, but the Eire company did not pay the call, and the shares were forfeited. The Eire company was a member of the English company within the relevant period.

The English company lent £35,000 to the Eire company on the security of debentures carrying interest at the rate of 5 per cent per annum. Two amounts of interest were waived. The loan was made as a commercial transaction.

It was contended on behalf of the respondent that as the loan had been made on commercial terms as to interest and security, it was not a 'benefit' within Section 36 (1) (*c*) of the Finance Act, 1947, and was therefore not a distribution to proprietors for profits tax purposes. The Special Commissioners decided in favour of the respondent.

Held, that the loan was an amount applied for the benefit of the Eire company, and was therefore a distribution to that company at a time when it was a member of the respondent company.

Newsom *v.* Robertson

In the High Court of Justice (Chancery Division)
April 30th, 1952
(Before Mr Justice DANCKWERTS)

Income-tax – Profession – Barrister – Profession exercised partly in London and partly at home – Expenses of travelling between London and house – Whether deductible – Income Tax Act, 1918, *Schedule D, Cases I and II Rule* 3 (*now Income Tax Act,* 1952, *Section* 137) – *Income Tax Act,* 1918, *Schedule E, Rule* 9 (*now Income Tax Act,* 1952, *Schedule IX, paragraph* 7).

The appellant, a barrister with chambers in Lincoln's Inn, lived outside London, and had a study in his house, where he kept a set of law reports and a number of text-books, and in respect of which he received a 'study allowance' under Section 137 (*c*) of the Income Tax Act, 1952. The appellant exercised his profession partly at his chambers in London and partly at his house.

During term time the greater part of the appellant's work was carried on at his chambers, but he did a considerable amount of work in the evenings at his home, and he also worked there in the week-ends. In vacations he did most of his work at home. Sometimes, if he had engagements elsewhere than in London, he would go to them from his home and not from his chambers.

The appellant claimed to be entitled to deduct the amount of his travelling expenses between London and his house in computing the amount of his income for tax purposes. The Special Commissioners decided that the expenses incurred during term time were not deductible, but that those incurred during vacations were allowable, because at those times the base of the appellant's work was his house.

Held, that none of the expenses was deductible.

Harvey *v.* Breyfogle

In the High Court of Justice (Chancery Division)
May 1st, 1952
(Before Mr Justice DANCKWERTS)

Income-tax – Employment – Agreement made abroad – Remuneration paid into bank account abroad – Employment exercised in United Kingdom – Whether remuneration taxable in United Kingdom – Income Tax Act, 1918, *Schedule D, Charging Rule* 1 (*a*) (*ii*), *Cases II and V.*

The respondent was the manager of the London branch of the National City Bank of New York, which is a company incorporated in the State of New York, and has its head office in the city of New York. The respondent was an American citizen, and was domiciled in the United States, and since he joined the bank in 1929, he had held various posts in various countries. He was appointed manager of the London branch of the bank in 1945, and his duties consisted largely in acting as deputy for a vice-president of the bank who is stationed in London. It was an important part of his functions to keep the head office of the bank acquainted with economic and monetary policy and developments in the United Kingdom, in Europe and in other parts of the world; and another of his functions was to carry through transactions of the bank abroad in the light of his knowledge of the general policy, and of the ways of operation, of the head office.

The agreement for the respondent's service in the United Kingdom was made in New York, and his remuneration was paid into his bank account there. The bank had a separate and distinct staff pension scheme for employees in England, but the respondent was not a member of that scheme; he was a member of the American scheme, and his contributions were deducted from his salary.

When he first came to England the respondent lived in a flat but after his family had joined him he purchased a house. During the year under appeal both his children were at school here, but at the time of the appeal hearing his daughter was at college in

America. He did not maintain a home in the United States. He aimed at visiting the United States about once every eighteen months, for six to eight weeks each time, and he had paid one such visit in 1947, for about six weeks from near the end of October, and nearly all the time was spent in New York. The purpose of these visits was to keep up to date with the way that senior officers of the bank were thinking. He sometimes went abroad on the Continent. People repeatedly came to London from the Continent to consult with him on affairs with which the bank was concerned, and in that way he handled much overseas business for the bank, and this business had nothing to do with the books or the operations of the English branches.

It was contended on behalf of the respondent that he was assessable, not under Schedule E, but under Case V of Schedule D, and only in respect of the remittances of remuneration to the United Kingdom. The Crown formally contended that *Bennet v. Marshall* (16 A.T.C. 167) had been wrongly decided, and that the respondent was assessable under Schedule E. The Special Commissioners held that they were bound by the decision of the Court of Appeal in *Bennet v. Marshall*, and they accordingly discharged the Schedule E assessment.

Held, that the decision in *Bennet v. Marshall* had to be followed, and the decision of the Special Commissioners affirmed.

The Nestlé Company Limited *v.* Commissioners of Inland Revenue

In the High Court of Justice (Chancery Division)
May 1st, 1952
(Before Mr Justice DANCKWERTS)

Stamp duty–Exemption–Acquisition of shares in company – Company incorporated in Northern Ireland – Whether exemption available – Stamp Duty Act, 1891, *Sections* 13, 55, 112, 113 – *Finance Act*, 1895, *Section* 12 – *Finance Act*, 1927, *Section* 55 – *Finance Act*, 1930, *Section* 41.

The appellant company, which was incorporated in England, increased its capital from £2,300,000 to £5,710,000 by 3,410,000 additional shares of £1 each, and did so for the purpose of acquiring shares in four other companies. Two of these companies were incorporated in England, and the other two in Northern Ireland, in 1946 and 1947, under the law of Northern Ireland. The shares in the four companies were held by a Panama company, and the 3,410,000 new shares were issued to the latter company.

The Inland Revenue accepted the transaction as entitled to exemption, under Section 55 of the Finance Act, 1927, in relation to the two companies incorporated in England, but they rejected the claim for exemption as regards the two companies incorporated in Northern Ireland. The latter companies had been incorporated under the Companies Act (Northern Ireland), 1932.

Held, that the exemption was not applicable to the two companies incorporated in Northern Ireland.

Bray *v.* Colenbrander

In the High Court of Justice (Chancery Division)
May 2nd, 1952
(Before Mr Justice DANCKWERTS)

Income-tax – Employment – Agreement made abroad – Remuneration paid partly in London and partly abroad – Employment exercised in United Kingdom – Whether remuneration taxable in United Kingdom – Income Tax Act, 1918, *Schedule D, Charging Rule* 1 (*a*) (*ii*), *Cases IV and V – Schedule E – Finance Act*, 1922, *Section* 18.

The respondent, a Netherlands subject, was appointed as a journalist to a Dutch newspaper, which was owned by a Dutch corporation. Six months afterwards the respondent came to the United Kingdom to take up an appointment as London correspondent to his newspaper. In order to carry on his work the respondent had to live in London. He had the use of a desk in the London office of the *Manchester Guardian*, but this was not the address of his paper. The respondent lived in a flat in London, and the rest of his duties, which consisted mainly of covering politics and diplomacy for his paper, were performed from the flat. The flat was taken by the respondent in his own name, but his paper paid a part of the rent. The respondent was resident in the United Kingdom for the years 1945–46 to 1949–50, which were the years under appeal, and his duties were almost exclusively performed in the United Kingdom.

The respondent's remuneration was about £125 a month, and was payable in Holland. His wife and child lived in Holland, and by arrangement with his employer a fixed sum of 500 guilders was paid in Holland direct to his wife for the maintenance of the home which he had there, and the balance, amounting to £73 5*s* 8*d* a month was remitted to him in London at his request. The respondent's employer had an account at a London bank, on which the respondent was entitled to draw, and every month a sum was transferred by his employer to the bank to cover (*a*) the balance of the respondent's remuneration not paid to his wife in Holland, (*b*) his employer's contribution towards the rent of the flat, and (*c*) an amount to cover the expenses incurred by him on behalf of his paper.

It was contended on behalf of the appellant (*a*) that the respondent was assessable under Schedule E, for the years under appeal, (*b*) alternatively, that he was assessable under Schedule E by virtue of Section 18 of the Finance Act, 1922. It was contended on behalf of the respondent that he was assessable under Case V of Schedule D, and only on amounts remitted to him in this country. The Special Commissioners held, on the authority of *Bennet v. Marshall* (16 A.T.C. 167), that the respondent was not assessable under Schedule E on either ground, but only, if at all, under Case V of Schedule D.

Held, that, in accordance with the decision in *Bennet v. Marshall*, the decision of the Special Commissioners was correct.

THE ROYAL COMMISSION'S RESUMED PUBLIC MEETINGS

Under its new chairman, Lord Radcliffe, the Royal Commission on the Taxation of Profits and Income resumed its public meetings on May 30th last at the Hall of The Society of Incorporated Accountants and Auditors. The meeting was devoted to the examination of witnesses who had submitted schemes for the removal of disincentive from the P.A.Y.E. system.

Mrs Ursula Hicks' Scheme

Mrs Hicks was examined on her scheme to adopt a system of taxing earnings similar to that in the United States. She began by stressing the importance of keeping taxation simple, for the benefit of weekly wage earners, and of putting all income-taxation, as far as possible, on a current-year basis, thus keeping revenue in line with current national income. She agreed with the chairman that in America the deductions from earnings were provisional in a much more real sense than under P.A.Y.E. and that the end-of-year adjustments meant a peak period in administration difficulties. Allowances could be expressed as tax-free percentages of the weekly earnings; the present total exemption for small incomes could in effect be retained by providing for a number of percentages which together totalled 100.

She agreed that the current-year basis of assessment would not be practicable for companies. Mr Millard Tucker pointed out that of one million profits assessments in this country, only 200,000 related to companies, and that his committee had come to the conclusion that the current-year basis was impracticable for Schedule D. Witness agreed that there was not much direct evidence that the emphasis placed by P.A.Y.E. on the marginal rate was causing absenteeism or refusal to work overtime; that could be found out only by a survey. Mr Millard Tucker observed that some members of the Commission were not satisfied that the disincentive effect was widespread. Was there any other reason for altering P.A.Y.E.? Witness said it caused a lot of work for employers, but she could not quantify this work for any given number of employees.

Witness agreed with Mr Woodcock, a member of the Commission, that her proposed simplified scheme of P.A.Y.E. would not be as equitable as the present one; she would make up for that by direct allowances. The social security contributions were in fact a tax and could be incorporated in the tax structure. Mr Woodcock pointed out that these contributions were for a special purpose and Sir Harry Gill added that the social security scheme provided for flat-rate contributions for flat-rate benefits. Would it be fair to require the £10-a-week man to pay twice as much as the £5-a-week man for the same scale of benefits? Witness replied that the individual's contribution did not in any case cover the benefits, which had to be provided partly from other sources.

Capital Gains

Witness confirmed that on balance she was not in favour of a capital gains tax. Whether an appreciation in value of a capital asset was realized or not, it would not be fair to tax that without bringing into account the market value of all the taxpayer's capital assets in order to see whether there was a net gain or loss. That seemed to be impracticable, although the Americans had recommended it to the Japanese. She confirmed the statement in her memorandum to the effect that it was more desirable to tackle this problem within the existing income-tax framework, that is to say by applying the usual tests as to whether there was a trade within Case I of Schedule D.

Mr F. H. Hughes' Memorandum

Mr Hughes was questioned on his memorandum advocating a change in the P.A.Y.E. system, under which the deductions in each quarter would be at a flat rate based on the earnings in the preceding twelve months.

He agreed it was difficult to assess the precise extent of the disincentive effect of taxing additional earnings at the marginal rate. In his memorandum he had estimated that a removal of the disincentive would produce an additional £67 million of earnings by workers liable to tax at a rate above the lowest rate. However, he admitted that his estimate was based on a number of assumptions which might not be valid. He gave some individual examples of cases where workers had put forward P.A.Y.E. as a reason for not working and added that, on the employers' side, more incentive schemes would be introduced but for P.A.Y.E. The present system reduced flexibility of earnings by some 12 to 15 per cent.

As to the apparent hardships to individuals, produced by his scheme, witness pointed out that the present system of allowances operated unfairly, tied as they were to the income-tax year. Thus a person who had an income for an isolated year paid more tax if it all arose in one income-tax year than if, for instance, it began and ended in October. Child allowance depended on whether the child was born on April 5th or April 6th. His scheme could be modified to meet the hardship objections of the Inland Revenue.

The chairman pointed out that witness's own scheme was related to a year, although a great many of the people affected by it based their personal budgets on the week rather than the year. In reply to Mr Millard Tucker witness confirmed that although his own scheme would probably reduce administration costs, the reduction by itself would not justify a change if that change did not also increase incentives.

Mr H. S. Booker's Scheme

Mr Booker was questioned on his own scheme which differed from that of Mr Hughes in that the flat rate of tax was based for the full tax year on the earnings of the preceding tax year. He thought this would disguise the fact that income-tax was progressive. The fact that under it no tax would be paid in the first working year was not a fatal objection. Most people were exempt in their first year of gainful employment. He admitted that all the work of ascertaining the rates of deduction would be telescoped into the beginning of the income-tax year.

Mr Woodcock put it to the witness that an advantage of the existing system was that the worker finished each week in the knowledge that his tax liability was disposed of.

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Representing The Society of Incorporated Accountants and Auditors: Sir Frederick Alban, C.B.E., F.S.A.A., F.I.M.T.A.; A. Stuart Allen, F.S.A.A.

Representing The Institute of Chartered Accountants in Ireland: G. Brock, F.C.A.; P. J. Purtill, LL.B., F.C.A., F.S.A.A.

Representing The Association of Certified and Corporate Accountants: Frederick Wilson, O.B.E., F.A.C.C.A.

Representing The Institute of Municipal Treasurers and Accountants: Jack Whittle, B.COM., A.C.A., F.I.M.T.A.

Representing the Institute of Cost and Works Accountants: Stanley J. D. Berger, M.C.

Golf Committee

D. V. House, F.C.A., *Chairman*; L. R. Elcombe, F.C.A., Charles D. Gairdner, C.A., Arthur E. Middleton, F.S.A.A., Percy Toothill, F.S.A.A., James Wood, C.A.

Ladies' Committee

Lady Howitt, *Chairman*; Mrs C. Percy Barrowcliff, Mrs Stanley J. D. Berger, Mrs Charles W. Boyce, Mrs Cassleton Elliott, Mrs C. I. R. Hutton, Mrs J. C. Latham, Miss Phyllis E. M. Ridgway, B.A., F.S.A.A., Mrs T. B. Robson, Mrs Jack Whittle.

Papers and Publications Committee

Chairman: BERTRAM NELSON, F.S.A.A.

Representing The Institute of Chartered Accountants of Scotland: Charles D. Gairdner, C.A.

Representing The Institute of Chartered Accountants in England and Wales: H. Garton Ash, O.B.E., M.C., F.C.A.; T. B. Robson, M.B.E., M.A., F.C.A.

Representing The Society of Incorporated Accountants and Auditors: A. Stuart Allen, F.S.A.A.

Representing The Institute of Chartered Accountants in Ireland: P. Butler, F.C.A.

Representing The Association of Certified and Corporate Accountants: T. Edgar Killip, F.A.C.C.A.

Representing The Institute of Municipal Treasurers and Accountants: James Scougal, F.S.A.A., F.I.M.T.A.

Representing the Institute of Cost and Works Accountants: Denis C. Edis, A.C.W.A.

ACCOUNTANCY ORGANIZATIONS REPRESENTED AT THE CONGRESS

In alphabetical order

ARGENTINE

Federacion de Colegios de Doctores en Ciencias Economicas y Contadores Publicos Nacionales.

AUSTRALIA

The Association of Accountants of Australia; The Australasian Institute of Cost Accountants; Commonwealth Institute of Accountants; Federal Institute of Accountants; The Institute of Chartered Accountants in Australia.

AUSTRIA

Kammer der Wirtschaftstreuhänder.

BELGIUM

Collège National des Experts Comptables de Belgique; Institut Belge des Reviseurs de Banques; Société Royale Chambre Belge des Comptables à Bruxelles.

BOLIVIA

Colegio de Economistas; Federación Nacional de Contadores.

BRAZIL

Conselho Federal de Contabilidade; Federaçao dos Contabilistas do Estado de Sao Paulo.

BURMA

Burma Accountancy Board; The Burma Society of Accountants.

CANADA

The Canadian Institute of Certified Public Accountants; The Canadian Institute of Chartered Accountants; The Institute of Chartered Accountants of Alberta; The Institute of Chartered Accountants of British Columbia; The Institute of Chartered Accountants of Newfoundland; The Institute of Chartered Accountants of Ontario; The Institute of Chartered Accountants of Quebec; Society of Industrial and Cost Accountants of Canada.

CEYLON

The Ceylon Board of Accountancy.

DENMARK

Foreningen af Statsautoriserede Revisorer.

EAST AFRICA

The Association of Accountants in East Africa.

FINLAND

K.H.T.-Yhdistys: Föreningen C.G.R.

FRANCE

Chambre Nationale des Experts Comptables Diplomés par l'Etat; Compagnie des Chefs de Comptabilité; Compagnie Nationale des Experts Comptables; Conseil Supérieur de la Comptabilité (Ministère des Finances et des Affaires Economiques); Fédération des Associations de Commissaires de Sociétés Inscrits par les Cours d'Appel; l'Ordre National des Experts Comptables et des Comptables Agréés; Société de Comptabilité de France; Union Professionelle des Sociétés Fiduciaires d'Expertise Comptable.

GERMANY

Bundesverband der Vereidigten Buchprüfer; Institut der Wirtschaftsprüfer.

GREAT BRITAIN AND IRELAND

The Association of Certified and Corporate Accountants; The Institute of Chartered Accountants in England and Wales; The Institute of Chartered Accountants in Ireland; The Institute of Chartered Accountants of Scotland; The Institute of Cost and Works Accountants; The Institute of Municipal Treasurers and Accountants; The Society of Incorporated Accountants and Auditors.

INDIA

The Institute of Chartered Accountants of India; The Institute of Cost and Works Accountants (India).

ISRAEL

Association of Public Accountants and Auditors in Israel.

ITALY

Consiglio Nazionale dei Commercialisti; Istituto di Ricerche Economico-Aziendali: Universita degli Studi di Torino.

JAPAN

Nippon Keirishi Kai; Shadan Hojin Nihon Keirishi Kyokai.

LUXEMBOURG

Ordre des Experts Comptables Luxembourgeois.

MALTA

The Malta Institute of Accountants.

MEXICO

Instituto de Contadores Publicos Titulados de Mexico.

NETHERLANDS

Nederlands Instituut van Accountants; Vereniging van Academisch Gevormde Accountants.

NEW ZEALAND

Incorporated Institute of Accountants of New Zealand; The New Zealand Institute of Cost Accountants; New Zealand Society of Accountants.

NORWAY

Norges Statsautoriserte Revisorers Forening; Revisorforeningen i Oslo.

PAKISTAN

Pakistan Council of Accountancy.

PERU

Colegio de Contadores Publicos del Peru; Instituto de Contadores del Peru.

PHILIPPINES

Philippine Institute of Accountants.

PORTUGAL

Sociedade Portuguesa de Contabilidade.

RHODESIA

The Rhodesia Society of Accountants.

SOUTH AFRICA

The Cape Society of Accountants and Auditors; The Institute of Municipal Treasurers and Accountants, S.A.; The Natal Society of Accountants; The Society of Accountants and Auditors in the Orange Free State; The Transvaal Society of Accountants.

SPAIN

Colegio Central de Titulares Mercantiles.

SWEDEN

Föreningen Auktoriserade Revisorer; Svenska Revisorsamfundet.

SWITZERLAND

Schweizerische Kammer für Revisionswesen; Verband Schweizerischer Bücherexperten.

UNITED STATES OF AMERICA

American Accounting Association; American Institute of Accountants; Arkansas Society of Certified Public Accountants; The California Society of Certified Public Accountants; The Colorado Society of Certified Public Accountants; District of Columbia Society of Certified Public Accountants; Connecticut Society of Certified Public Accountants; Controllers Institute of America; Illinois Society of Certified Public Accountants; Institute of Internal Auditors; Iowa Society of Certified Public Accountants; Kansas Society of Certified Public Accountants; Kentucky Society of Certified Public Accountants; Louisiana Institute of Certified Public Accountants; Maine Society of Certified Public Accountants; The Maryland Society of Certified Public Accountants; Massachusetts Society of Certified Public Accountants; Michigan Association of Certified Public Accountants; Missouri Society of Certified Public Accountants; Municipal Finance Officers Association of the United States and Canada; National Association of Cost Accountants; New Jersey Society of Certified Public Accountants; The New York State Society of Certified Public Accountants; The Ohio Society of Certified Public Accountants; The Oklahoma Society of Certified Public Accountants; Pennsylvania Institute of Certified Public Accountants; Rhode Island Society of Certified Public Accountants; Texas Society of Certified Public Accountants; The Virginia Society of Certified Public Accountants; Wisconsin Society of Certified Public Accountants.

URUGUAY

Colegio de Doctores en Ciencias Económicas y Contadores del Uruguay.

PROGRAMME

Monday, June 16th

9.0 a.m. onwards. *Registration*
Delegates and visitors and their ladies and members of sponsoring bodies and their ladies who have not already registered, are requested to report their arrival at the headquarter office of the Congress at the Royal Festival Hall.

10.30 a.m. Westminster Abbey
Special Congress Service (by kind permission of the Dean and Chapter). Sermon by the Very Rev A. G. Don, K.C.V.O., D.D., Dean of Westminster; *or*

10.30 a.m. Westminster Cathedral
Solemn High Mass for Roman Catholic delegates, visitors and members and their guests.

Those attending either of the services will, if they so desire, be conducted over the Abbey or the Cathedral at about 11.30 a.m.

3.15 p.m. to 4.0 p.m. Royal Festival Hall
Address of welcome by the President of the Congress followed by afternoon tea.

9.0 p.m. to 12.0 midnight. Royal Festival Hall
Congress reception. Reception 9.0 p.m. to 9.45 p.m.; dancing; demonstrations of Scottish reels and square dances. *Dress:* Evening dress or dinner jackets, orders and decorations.

10.0 a.m. to 5.30 p.m. Guildhall Library, Basinghall Street, EC2.
Exhibition of historical records on accounting each day until June 20th.

Tuesday, June 17th

FIRST SESSION

10.0 a.m. to 12.30 p.m. Royal Festival Hall
Subject: 'Fluctuating Price Levels in Relation to Accounts.' (i) Summary of papers by the rapporteur, A. C. Velling, Denmark. (ii) Discussion. (iii) Summing-up by the introducer, C. Percy Barrowcliff, F.S.A.A.

SECOND SESSION

2.15 p.m. to 4.45 p.m. Royal Festival Hall
Subject: 'Accounting Requirements for Issues of Capital.' (i) Summary of papers by the rapporteur, A. A. Fitzgerald, B.COM., F.I.C.A., F.C.A.A., Australia. (ii) Discussion. (iii) Summing-up by the introducer, Ian W. Macdonald, M.A., C.A.

2.45 p.m. to 4.0 p.m. Royal Festival Hall
Dress show for ladies of delegates, visitors and members, followed by afternoon tea.

7.0 p.m. Theatre Parties
Dress: Dinner jackets or informal dress.

Wednesday, June 18th

THIRD SESSION

10.0 a.m. to 12.30 p.m. Royal Festival Hall
Subject: 'The Accountant in Industry.' (i) Summary of papers by the rapporteur, N. R. Mody, B.COM., F.C.A., India. (ii) Discussion. (iii) Summing-up by the introducers, F. R. M. de Paula, C.B.E., F.C.A., and W. S. Risk, B.COM., C.A., F.C.W.A.

FOURTH SESSION

2.15 p.m. to 4.45 p.m. Royal Festival Hall
Subject: 'The Accountant in Practice and in Public Service.' (i) Summary of papers by the rapporteur, Professor A. M. van Rietschoten, The Netherlands. (ii) Discussion. (iii) Summing-up by the introducers, A. H. Marshall, B.SC., PH.D., F.S.A.A., F.I.M.T.A., and G. F. Saunders, F.C.A.

7.0 p.m. Guildhall, London
Banquet. *Dress:* Evening dress or dinner jackets, with orders and decorations.

7.0 p.m. Theatre parties for ladies of delegates, visitors and members, together with those visitors and members for whom accommodation is not available at Guildhall banquet. *Dress:* Dinner jackets or informal dress.

Thursday, June 19th

There will be no sessions of the Congress on Thursday, June 19th. Delegates, visitors and members of the sponsoring bodies and their ladies will have the choice of any one of the following, each of which will last from approximately 10 a.m. until 6 p.m.

(1) Visit to Windsor Castle and Hampton Court Palace. Lunch at *The Castle Hotel*, Windsor.
(2) Visit to places of interest in London, including Houses of Parliament, Guildhall, Tower of London, St Paul's Cathedral and Goldsmiths' Hall. Lunch at Holborn Restaurant.
(3) Visit to Oxford University. Lunch at *The Randolph Hotel.*
(4) Visit to Cambridge University. Lunch at Trinity Hall and other Colleges.
(5) Tour of the Port of London on board *S.Y. St Katharine* (kindly arranged by the Port of London Authority). Lunch at the Maritime Museum, Greenwich.
(6) Golf competition at Wentworth, near Virginia Water. Lunch at the club house.

9.0 p.m. to 10.30 p.m. Tate Gallery, Millbank, SW1.
Government reception for delegates and their ladies. Guests will be received by Brigadier H. R. Mackeson, M.P., Secretary for Overseas Trade. *Dress:* Evening dress or dinner jackets: orders and decorations.

Friday, June 20th

FIFTH SESSION

10.0 a.m. to 12.30 p.m. Royal Festival Hall
Subject: 'The Incidence of Taxation.' (i) Summary of papers by the rapporteur, Percival F. Brundage, C.P.A., U.S.A. (ii) Discussion.

FIFTH SESSION (*contd.*)

2.15 p.m. to 3.45 p.m. Royal Festival Hall
Further discussion on 'The Incidence of Taxation', and summing-up by the introducers, G. B. Burr, F.A.C.C.A., and Thomas J. Green, C.P.A.

4.0 p.m. to 4.30 p.m. Royal Festival Hall
Closing address by the President of the Congress.

6.0 p.m. Cocktail party at *Grosvenor House*, Park Lane, at the invitation of the Editor-in-Chief and the Editor of *The Accountant*. Admission by invitation only. *Dress:* Optional.

10.0 p.m. to 2.0 a.m. (June 21st) *Savoy Hotel*
Congress ball. *Dress:* Evening dress or dinner jackets; no orders or decorations.

PROGRAMMES IN SCOTLAND AND IRELAND

Monday to Wednesday, June 23rd-25th

Overseas delegates and visitors and their ladies are invited to visit Scotland or Ireland, when they will be entertained respectively by the Institute of Chartered Accountants of Scotland and by the Institute of Chartered Accountants in Ireland, and by the Scottish and Irish branches of the Society of Incorporated Accountants and Auditors, the Association of Certified and Corporate Accountants, and the Institute of Cost and Works Accountants.

Delegates and visitors and their ladies wishing to avail themselves of this invitation are requested to make their own arrangements for travelling to Scotland or Ireland and for their hotel accommodation whilst there.

PROGRAMME IN SCOTLAND

Monday, June 23rd
10.45 a.m. to 12.30 p.m. Tour of Edinburgh, including the Castle, St Giles Cathedral, the Thistle Chapel, Parliament House, John Knox's House, Holyrood House, Burns' Monument and the Scott Monument. 12.45 p.m. Luncheon at *George Hotel.* 8 p.m. to 10 p.m. Civic reception by the Corporation of the City of Edinburgh. *Dress:* Dinner jackets or lounge suits.

Tuesday, June 24th
8.45 a.m. to 6 p.m. Motor coach tour of Loch Lomond, Loch Long and Gareloch. Lunch at Balloch. 6.30 p.m. Dinner for delegates, visitors and their ladies at *St Enoch's Hotel*, Glasgow. *Dress:* Informal. 9.30 p.m. Return to Edinburgh.

Wednesday, June 25th
1.45 p.m. to 6.15 p.m. Motor coach tour to the Scott country. Tea at Dryburgh. 7 p.m. Dinner at *The North British Hotel,* Edinburgh. *Dress:* Evening dress or dinner jackets with orders and decorations.

PROGRAMME IN NORTHERN IRELAND

Monday, June 23rd
11 a.m. Civic reception. 1 p.m. Luncheon. 3 p.m. Coach tour of Belfast. 7.30 p.m. Theatre. *Dress:* Dinner jackets or informal.

Tuesday, June 24th
9 a.m. Coach tour of Northern Counties, visiting Giant's Causeway. Lunch at *Causeway Hotel.* 8.30 p.m. Dinner at Dunmurry. *Dress:* Informal.

Wednesday, June 25th
11.30 a.m. Coach tour of County Down. 1 p.m. Lunch at *Slieve Donard Hotel,* Newcastle. 6 p.m. Return to Belfast.

PROGRAMME IN EIRE

Monday, June 23rd
Reception. Luncheon. Tour of Dublin. Theatre.

Tuesday, June 24th
Motor coach tour of County Wicklow, visiting Glendalough and Vale of Avoca. Dinner on completion of tour. *Dress:* Informal.

Wednesday, June 25th
Free morning. Lunch. Motor coach tour. Dinner in Dublin. *Dress:* Evening dress or dinner jackets; orders and decorations.

SUBJECTS FOR DISCUSSION

The subjects for discussion, together with the names of individuals contributing papers, are listed below. The papers have been published in booklet form, each booklet containing all the papers on one subject. The contents of the various papers and any subsequent discussions thereon will be regarded as the contributor's personal views.

Method of Discussion

The papers submitted for discussion are being circulated to all attending the Congress. They will not be read during the sessions of the Congress; instead, they will be summarized by the rapporteurs, and the remainder of each session will be devoted to discussion and summing-up by the introducers. It is hoped that the adoption of this procedure will give the maximum number of people an opportunity to express their views.

The allocation of subjects to speakers and the time each speaker is allowed (probably five minutes) will be notified in advance of the Congress.

Official Language

English will be the official language of the Congress: all papers are printed in English and the discussions at the Congress will be conducted in that language.

1. Fluctuating Price Levels in Relation to Accounts

Papers by:

C. Percy Barrowcliff, F.S.A.A., the Society of Incorporated Accountants and Auditors.

A. Goudeket, Nederlands Instituut van Accountants.

Professor Willard J. Graham, American Accounting Association.

Professor Dr Karl Hax, W.P. Dr Ernst Knorr and W.P. Dr Albert Meier, Institut der Wirtschaftsprüfer, Germany.

T. A. Hiley, F.C.A.(AUST.), the Institute of Chartered Accountants in Australia.

P. Lauzel, J. Poly and A. Cibert, Conseil Supérieur de la Comptabilité (Ministère des Finances et des Affaires Economiques), France.

Edward B. Wilcox, C.P.A., American Institute of Accountants.

Professor B. J. S. Wimble, F.S.A.A., C.A.(S.A.), The Transvaal Society of Accountants.

Rapporteur:

A. C. Velling, Fôreningen af Statsautoriserede Revisorer, Denmark.

2. Accounting Requirements for Issues of Capital

Papers by:

W. L. Birnie, B.COM., F.I.A.N.Z., F.C.I.S., Incorporated Institute of Accountants of New Zealand.

Dr Karl Kaefer, Verband Schweizerischer Bücherexperten.

Ian W. Macdonald, M.A., C.A., The Institute of Chartered Accountants of Scotland.

F. M. Richard, Compagnie Nationale des Experts Comptables, France.

J. R. M. Wilson, F.C.A.(CANADA), The Canadian Institute of Chartered Accountants.

Rapporteur:

A. A. Fitzgerald, B.COM., F.I.C.A., F.C.A.A., Commonwealth Institute of Accountants, Australia.

3. The Accountant in Industry

Papers by:

Clinton W. Bennett, C.P.A., National Association of Cost Accountants, U.S.A.

A. A. Fitzgerald, B.COM., F.I.C.A., F.C.A.A., Commonwealth Institute of Accountants, Australia.

H. Hjernö Jeppesen, Fôreningen af Statsautoriserede Revisorer, Denmark.

George Moller, D.JUR., C.A.(CANADA), Society of Industrial and Cost Accountants of Canada.

F. R. M. de Paula, C.B.E., F.C.A., The Institute of Chartered Accountants in England and Wales.

A. Payrau, Compagnie Nationale des Experts Comptables, France.

W. S. Risk, B.COM., C.A., F.C.W.A., The Institute of Cost and Works Accountants.

Rapporteur:

N. R. Mody, B.COM., F.C.A., The Institute of Chartered Accountants of India.

4. The Accountant in Practice and in Public Service

Papers by:

T. Coleman Andrews, C.P.A., The Virginia Society of Public Accountants (U.S.A.).

A. P. C. D'Aca Castel-branco, Sociedade Portuguesa de Contabilidade.

Professor W. J. A. Fairbairn, A.S.A.A., C.A.(S.A.), The Natal Society of Accountants.

C. L. King, F.C.A.(CANADA), The Canadian Institute of Chartered Accountants.

SVEN-HÅKAN LEFFLER, A.P.A., Föreningen Auktoriserade Revisorer, Sweden.

A. H. Marshall, B.SC., PH.D., F.S.A.A., F.I.M.T.A., The Institute of Municipal Treasurers and Accountants.
B. W. Raby, F.A.C.C.A., and A. F. J. Sears, Federación Nacional de Contadores, Bolivia.
G. F. Saunders, F.C.A., The Institute of Chartered Accountants in England and Wales.
Rapporteur:
Professor A. M. van Rietschoten, Nederlands Instituut van Accountants.

5. The Incidence of Taxation

Papers by:
R. D. Brown, F.P.A.N.Z., New Zealand Society of Accountants.
G. B. Burr, F.A.C.C.A., The Association of Certified and Corporate Accountants.
Thomas J. Green, C.P.A., American Institute of Accountants.
Conrad F. Horley, F.A.A.(AUST.), The Association of Accountants of Australia.
G. P. Kapadia, B.COM., F.C.A.(INDIA), The Institute of Chartered Accountants of India.
Thomas Kjeldsberg, Norges Statsautoriserte Revisorers Forening.
Uno Lönnqvist, M.COM., M.ECON., K.H.T.-Yhdistys: Föreningen C.G.R.
Rapporteur:
Percival F. Brundage, C.P.A., American Institute of Accountants.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

MEMBERS' LIBRARY

A new supplement to the 'short list' of books in most frequent use in the library of the Institute, including books available on loan, has just been issued.

Copies of the supplement, which contains additions up to March 1952, are available to members, free and post free from the Librarian, upon receipt of an addressed label.

Personal

MR PERCY G. STEMBRIDGE, F.S.A.A., practising at 55 Newhall Street, Birmingham, 3, and 21 Queen Street, Droitwich, announces that he has been joined in partnership by Mr C. MILLINGTON, A.S.A.A., who has been a member of his staff for many years. The practice will be carried on in future under the style of PERCY G. STEMBRIDGE & Co, Incorporated Accountants, at the same addresses.

MESSRS BARNES, DUNN & BOUGHTON, Chartered Accountants, of Balfour House, Finsbury Pavement, London, EC2, announce that they have been joined in partnership by Mr JOHN ERIC RALPH VELLACOTT, F.C.A., who for many years has practised at Finsbury Pavement House, Moorgate, EC2, under the firm name of SEWELL, HUTCHINSON & Co, and that at the same time they have joined him in partnership in his firm. The practices of both firms will be carried on, under their respective names, at Balfour House, Finsbury Pavement, EC2. Tel: Monarch 1172–3 and 7482.

Professional Note

Mr A. B. Waring, A.C.A., chairman and managing director of Joseph Lucas Ltd, has been elected President of Birmingham Chamber of Commerce.

Obituary

FREDERICK STANLEY MORRIS, F.C.A.

It is with regret that we record the recent death of Mr Frederick Stanley Morris, F.C.A., senior partner in the firm of Hodgson, Morris & Co, Chartered Accountants, of 41 North John Street, Liverpool. Mr Morris, who was aged 70, was admitted an Associate of the Institute in 1904 and elected a Fellow twelve years later. He had been a partner in his firm for forty-four years and was a past president of the Liverpool Society of Chartered Accountants.

Mr Morris was taken ill and died suddenly at West Lancashire Golf Club on Thursday, May 29th, while taking part in the annual golf competition of the Liverpool Society of Chartered Accountants, which he first won in 1924. He was a keen golfer, being the present captain of the Society of Liverpool Golf Captains and a past president of the Formby and West Lancashire Golf Clubs.

A director of a number of companies in this country and South Africa, he was a prominent freemason, and was treasurer of the Royal Masonic Institution for Boys' 1952 Festival.

HAROLD TOWLE HOOLEY, F.S.A.A.

It is with regret that we record the death on May 27th at the age of 54, of Mr Harold T. Hooley, F.S.A.A., senior partner in the firm of Messrs Harold T. Hooley of Nottingham.

Mr Hooley became a member of the Society in 1926 and commenced in practice in the same year, forming a partnership at the beginning of the present year. He played a prominent part in local church and political circles and was a strong supporter of sporting organizations in Nottingham. He was

secretary of the local branch of the National Society for the Prevention of Cruelty to Children for upwards of twenty years.

In Parliament

NATIONAL HEALTH SERVICE: COST ACCOUNTING

Mr JOHN MORRISON asked the Minister of Health whether he will suggest to local authorities that they should adopt a uniform system of cost accounting for those parts of the Health Act which they are responsible for administering.

Mr IAIN MACLEOD: This is primarily a matter for the local health authorities themselves. Some statistics comparing costs have already been published by the Institute of Municipal Treasurers and Accountants and the Society of County Treasurers.

Hansard, May 27th, 1952. Written Answers, Col. 151.

SCOTLAND: NATIONAL HEALTH ACT: COST ACCOUNTING

Captain DUNCAN asked the Secretary of State for Scotland whether he will arrange with local authorities for the adoption of a uniform system of cost accounting for those parts of the Health Act for the administration of which they are responsible.

Mr J. STUART: Arrangements are in operation to this end, and preliminary results have already been published by the Institute of Municipal Treasurers and Accountants.

Hansard, May 26th, 1952. Written Answers, Col. 145.

DEVELOPMENT CHARGES

Mr WALKER-SMITH asked the Chancellor of the Exchequer whether, in the light of the progress made on the assessment of claims on the sum of £300 million set aside under the Town and Country Planning Act, 1947, he will make a statement about the future collection of development charges from persons who possess agreed claims.

Mr BOYD-CARPENTER: Yes. In future when a development charge becomes due from a developer who possesses a claim the value of which has been determined, the Central Land Board will accept a charge upon that claim as security for an amount not exceeding 80 per cent of the face value of the claim. Only the balance (if any) of the development charge will be immediately payable.

Hansard, May 26th, 1952. Written Answers, Col 118.

Chartered Accountant Presides at Livery Dinner

Major G. A. Warley, F.C.A., Master of the Worshipful Company of Farriers, was in the chair when the livery dinner of the company was held at Grocers' Hall, London, on May 26th. The toast of the company was proposed by The Duke of Beaufort, Master of the Horse, and other speakers were the Bishop of Chelmsford and Mr Justice McNair.

Chartered Accountants in Public Life

Mr J. C. F. Hewlett, O.B.E., T.D., J.P., A.C.A., a director and secretary of J. W. Cameron & Co Ltd, has been elected Mayor of West Hartlepool. Mr Hewlett first became a member of the town council in 1947 and successfully defended his seat in 1951. In last year's council he served as vice-chairman of the finance, town-planning and works committees. He is a member of the North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants.

Mr Harold G. Judd, C.B.E., C.A., senior partner in the firm of Mann, Judd & Co, has been re-elected for a second year of office as Mayor of Hampstead.

Mr John Bryon Cruse, F.C.A., senior partner in the firm of Cruse & Blatchford, Chartered Accountants, of Barnstaple, has been elected Mayor of Barnstaple.

'Cost-word' Puzzle Solution

The following is the solution to the 'Cost-word' Puzzle by Norman H. Foster, A.C.W.A., which appeared in our last issue:

ACROSS: 1. Prices; 5. Volume; 9 & 35. Budget; 10. At LIFO; 11. Strict; 12. LSD; 14 & 18. Soda; 16. CXI; 17. Elf; 19. By pi; 20. Pace; 21. Incidence; 22. Vary; 23. Ease; 24. i.e.; 25 & 26. Retort; 27. Lb; 30. Yen; 33. Faulty; 34. Policy; 36. Action; 37. At year.

DOWN: 1. Plans; 2. Idle; 3. Efficiency ratio; 4. Runs; 6. Out-of-pocket cost; 7. Unit; 8. Extra; 12. Liquidity; 13. Depletion; 15. Observe; 18. Decibel; 24. Infra; 28. Buyer; 29. Must; 31. Even; 32. Time.

Recent Publications

HOW THE CIVIL SERVICE WORKS, by Bosworth Monck. vi + 258 pp. 8½ × 5½. 25*s* net. Phoenix House Ltd, London.

GUIDE TO INCOME TAX, by N. E. Mustoe, M.A., LL.B. xv + 339 pp. 8½ × 5½. 31*s* 6*d* net, 32*s* 5*d* by post. Butterworth & Co (Publishers) Ltd, London.

JORDANS INCOME TAX GUIDE, Twenty-second Edition, by Charles W. Chivers. 48 pp. 7 × 5. 2*s* net. Jordan & Sons Ltd, London.

THE PRINCIPLES AND PRACTICE OF BANKING IN SOUTH AFRICA, Third Edition, by H. A. F. Barker, B.COM., F.I.A.C. 549 pp. 8½ × 5½. 45*s* net. Juta & Co Ltd, Cape Town and Johannesburg.

SHIRTSLEEVE ECONOMICS, by William A. Paton, Professor of Economics, University of Michigan. xix + 460 pp. 8½ × 5½. $4 net. Appleton-Century-Crofts Inc., New York.

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CONTENTS

THE CONGRESS AGENDA

LOOKING back over nearly fifty years of accountancy history, it now seems that the subjects selected for discussion at the first International Congress on Accounting, held at St Louis in 1904, were by present-day standards almost parochial. The theme of municipal accounting predominated and most of the other papers were localized to the consideration of specific aspects of auditing. Little opportunity appears to have been given for a broader survey of the profession as a whole against the social background and economic needs of the times. In contrast, the subjects chosen for discussion at the sixth International Congress on Accounting, which opens at the Royal Festival Hall, London, on Monday, are in the main the concern not only of the profession but of the entire business community and they have an aptness and urgency which show that the profession is well aware of its role in the counsels of modern commerce.

It is interesting to look for a moment at the influences, internal and external, which have directed the profession during the course of this century to its present position of authority in the world of affairs. From within, the consistently high standard of training and conduct insisted on by those presiding over the destinies of the various professional bodies, the scrupulous honesty with which responsibilities have been accepted and the vigilance with which rights have been guarded have been an inspiration to the many individual members on whose behaviour and performance the reputation of the profession ultimately rests.

With these traditions now firmly established, the profession has been well equipped basically for the task of dealing with the drastic external changes in the structure of society which have taken place in the past fifty years. These, as every accountant knows, include the enormous expansion of industry and the consequent amalgamation of individual companies into large corporations; the emergence of a new theory of ownership known as 'the managerial revolution'; the advent of nationalization which has telescoped whole industries into corporations larger than any evolved by private enterprise; the growth in the burden and complexity of taxation; and, finally, the decline in the value of money. The criticism has been made that the problems caused by the last have been so much accelerated in recent years that accounting philosophy has not proved flexible enough, nor accounting technique sufficiently adaptable, to produce a form of financial statement which would accurately reflect the constant process of change. This is fair comment but it should also be said that the accounting bodies themselves have long realized the limitations of financial accounts prepared on the basis of historical

cost when the monetary unit is an unstable standard of value but, as the Council of The Institute of Chartered Accountants in England and Wales has just pointed out in its latest recommendation on accounting principles,[1] each alternative so far proposed is open to serious question and, if applied in practice, would create new issues, social and economic, 'far beyond the realm of accountancy'. The full extent of the earnest thought which is being given to finding a satisfactory solution to this vexed problem may perhaps be better appreciated after the Congress has deliberated on it.

The five subjects to be discussed next week fall neatly into two divisions. The first of these might be called a general review of the profession and of the services it has to offer to the community and consists of two series of papers: 'The accountant in practice and in public service' and 'The accountant in industry'. These subjects have a special significance in view of the ever-increasing demands being made on the services of accountants by central government and local authorities and by industry and commerce. Two important acknowledgments of this trend have been made in the past year – one by the Institute of Cost and Works Accountants who propose to establish a distinctive qualification in management accountancy and the other by The Institute of Chartered Accountants in England and Wales who have instituted a permanent sub-committee to advise the Council on matters of interest relating to non-practising members of the Institute. If the qualified accountant who embarks on a commercial career can assimilate the best that the factory has to offer without losing the detached skill and judgment which characterizes the accountant who remains in practice, and if he can retain his loyalty to the professional body of which he is a member, then the closer relationship between accountancy and industry must surely benefit both.

The second group of subjects deals with three practical problems – each self-contained yet linked together by the exigencies of the times – on which the guidance of accountants is constantly being sought. The first of these – 'Fluctuating price levels in relation to accounts' – has already been referred to above. The interim views of many accounting bodies and individuals have been published on this difficult question – one to which by reason of its ramifications no solution of mathematical precision is ever likely to be forthcoming. The discussions on Tuesday should be useful in clearing the ground for the further study which, it is hoped, will be undertaken jointly by the various professional bodies after the Congress at the invitation of the Council of The Institute of Chartered Accountants in England and Wales.

The question of 'Accounting requirements for issues of capital' will also be considered on the same day. It is interesting to note that a similar topic was discussed at St Louis in 1904 when the late SIR FRANCIS PIXLEY presented a paper on the subject. Conditions in the new issues market, however, as well as statutory requirements, have changed so much in the long interval that the scholarly reflections made on the banks of the Mississippi are likely to have little in common with the equally scholarly but rather more up-to-date opinions due to be expressed on the banks of the Thames on Tuesday.

The remaining subject for discussion – 'The incidence of taxation' – provides probably the biggest contrast of all between the first and sixth Congresses. In 1904, the rate of income-tax in this country was 1*s* in the £ and super-tax (introduced in 1910 and affecting incomes over £5,000 per annum, the levy operating from the £3,000 level at the flat rate of 6*d* in the £) was still a dream in the mind of MR LLOYD GEORGE. The whole question of taxation in those happy far-off days was hardly worthy of serious consideration. Today, it is the largest single factor in our economy and is almost universal in its application. Because of this, the views of the oversea delegates should be of especial interest and it will be surprising if the plea for reducing the burden in order to encourage enterprise and initiative is not repeated by one speaker after another.

Whatever future historians may have to say about the Sixth International Congress on Accounting, they will have to admit that the profession's appreciation of the problems besetting the business world of 1952 was very real and that its contributions towards resolving them were characterized by honest thought and unremitting effort.

[1] See *The Accountant* for May 31st, 1952.

THE LIFO METHOD OF STOCK VALUATION

by C. D. HELLYAR, A.C.A.

LIFO and Inflation Accounting

THIS article aims to give a factual exposition of a method of stock valuation which has been current in the United States for a long time and has been admitted for tax purposes since 1938 by that unsympathetic body the Bureau of Internal Revenue. Its impact on the problem of 'inflation accounting' is, however, so obvious that a brief word needs to be said on this topic.

Accountants, more than most people, understand how industry and commerce is being drained of capital by reason of the combination of high profits taxation with inflation. Oddly enough, the problem of inflated stocks has received less attention than that of the inflated replacement cost of fixed assets. The evidence of the British Bankers' Association to the Royal Commission on the Taxation of Profits and Income, and also that of the Issuing Houses Association, has, however, emphasized the great rise in bank overdrafts needed to finance inflated stocks, especially for the small business.

Even more revealing are the figures of stock inflation during 1951 given in the White Paper on National Income and Expenditure.[1] The rise in monetary value of stocks during that year (after making due allowance for physical variations) is estimated at no less than £1,200 million. The bulk of these stocks are manufacturing and trading stocks. Thus we can infer that over £500 million of the income-tax revenue for 1952–53 will be drawn from industry and commerce on a purely paper profit.

Accountants may be forgiven if, as taxpayers themselves, they point out that the term 'industry and commerce' cloaks a multiplicity of enterprises, joint stock companies and firms, the equity or title in which belongs to individuals. Why should these people enjoy special taxation privileges, some accountants ask?

Yet many of us feel uneasy about this attitude. Plenty of people exist who desire not only the 'euthanasia of the rentier' but the euthanasia of all private enterprise as well, and who rejoice to see this coming about without any effort on their part. They do not comprise many accountants among their number. Yet who is to provide these concerns with capital if they are not allowed to provide it themselves? Are they to be forced into increasing indebtedness to financial institutions in order merely to maintain the scale of their operations? How long, in any case, can this process continue?

There is a middle way to which the LIFO method points. So long as a concern actively employs in its business the funds derived from inflationary profits, then let it do so free of tax. If it ceases to do so or the inflationary trend recedes, then let the profit, or an appropriate part of it, be brought in and taxed.

The significance of LIFO is that it provides a practical and automatic technique for achieving this result in relation to both companies and firms, a technique which already exists and is applied in the U.S.A. for financial and taxation purposes.

Effects of Inflation on Stocks

The amount at which stocks are valued is the primary factor in the determination of profits by reason of its effect on the determination of the cost of goods sold; the higher the value placed on closing stock the lower will be the cost of sales and in consequence the greater the profit.

One result of the depreciating value of money is that stocks of raw materials of approximately the same physical quantity will, on normal methods of valuation, show an increase in money value from one accounting date to the next; the inflated value so appearing in the balance sheet will be reflected in higher profits shown as earned during the year.

The advocates of LIFO maintain that a growth of profits from this cause is quite misleading and that a number of evils flow therefrom. Profits tend to be overdistributed; excessive wage demands are made by labour; accusations of high profits are used to prevent necessary increases of selling prices to cover replacement cost and to justify discriminatory legislation. More particularly, taxes are levied on the inflated profits and thus drain businesses of the funds needed to build up their financial resources.

Various methods exist designed to exclude the 'paper' or inflationary element from inventory

[1] White Paper on Preliminary National Income and Expenditure Estimates, 1948 to 1951. (H.M.S.O. Cmd. 8486).

profits; these include the base or normal stock method and also the LIFO method which is a development thereof.

The criticisms directed against LIFO are broadly that it distorts trading profits by eliminating violent fluctuations therefrom and that 'its primary purpose is the evasion or deferment of taxation commitments'.

One may agree or disagree with the LIFO method but the suggestion that it is a crude expedient to avoid taxation is quite unacceptable. The theory underlying it is in itself most interesting and is the fruit of a long and thorough investigation in the U.S.A. into basic concepts of profit which goes back at least to 1936. Those who wish to pursue the theoretical aspects are recommended to read a publication by the Harvard Business School under the title of *Effects of Taxation: Inventory Accounting and Policies*, by J. Keith Butters.[1]

The first essential, however, is to explain how LIFO works.

Methods of Stock Valuation

For the sake of completeness the principal methods of stock valuation are very briefly summarized below:

Unit cost

Upon this basis each article, batch or parcel is valued at its individual cost.

First in, first out (FIFO)

This basis assumes that goods sold or consumed were those which had been longest on hand.

Average cost

This basis entails averaging the book value of stocks at the commencement of a period with the cost of goods added during the period after deducting consumption at the average price, the periodical rests being as frequent as possible.

Base or normal stock

This method consists in adopting a quantity of stock (which may vary from time to time) as the minimum quantity the business must have to keep in production and valuing it at a constant price over a long period of years.

Last in, first out (LIFO)

This method is based on the principle that profit or loss on trading is the difference between the price at which goods are sold and their replacement cost, for this purpose replacement cost meaning the actual cost of the last purchases during the year. It is a development of the 'base stock' method and is fully explained below.

The essence of LIFO is that the valuation of physical stocks should be crystallized or frozen at their prices on a particular date and should not vary thereafter. If a physical increase occurs such increase should also be frozen at the new current prices.

There are other methods based on standard or predetermined cost, allowing discounts off selling prices etc. which are appropriate to particular businesses.

The normal valuation method is loosely described as 'the lower of cost or market value'. 'Cost' may mean many things as shown above and 'market value' is also ambiguous; it may mean either the realizable price of the article at the balance sheet date or current replacement cost thereof.

Normally on either the 'average cost' or LIFO method of valuation, market value is ignored.

The LIFO method described

Taxpayers in the United States have been allowed to use the 'last in, first out' method of stock valuation since 1938, and the National Industrial Conference Board reported in 1947 that 44 per cent of the larger corporations included in a survey were using this method for part or all of their stocks. It was recently estimated that 25 per cent of the value of all United States inventories are now under LIFO.

The development in the U.S.A. naturally gave rise to much discussion and considerable literature on the subject of stock valuation. Outside the U.S.A. there has, however, been surprisingly little reaction, though in many Continental countries other less accurate methods are permitted.

The reason for this attitude lies, it is thought, to a large extent in ignorance of the techniques of applying LIFO which have been developed in the U.S.A., but in the United Kingdom at least it is hoped that this attitude is now changing.

The base stock method is not accepted for tax purposes by the Internal Revenue.

It is interesting to note from the recent report of an authoritative United States study group –

[1] *Effects of Taxation: Inventory Accounting and Policies*, by J. Keith Butters (Research Division, Graduate School of Business Administration, Harvard University, 1949).

Changing Concepts of Business Income[1] that, although an express authorization of the use of the LIFO method was embodied in the United States tax law in 1938, this was done to overcome administrative objection to it. In fact, responsible Members of Congress expressed the view that it was already permitted by the existing law.

A rather similar position now exists in the United Kingdom. As in the U.S.A., the decisive factor is whether a method of valuation is 'accepted accounting practice' (*C.I.R. v. Cock, Russell & Co Ltd* (28 A.T.C. 393)). As to whether LIFO is an accepted accounting practice the only mention of it up till now in the Institute's *Recommendations on Accounting Principles* was a non-committal reference in Recommendation X; in the newly published Recommendation XV there is, however, what appears to be a rejection not only of LIFO but of base stock and similar methods of stock valuation.

This attitude on the part of the Council is certainly likely to make it difficult to change the official Revenue attitude in this country, despite the fact that the LIFO method is accepted accounting practice in the U.S.A.

The United States Internal Revenue Code provides that stock valuations shall conform to the best accounting practice in the trade or business concerned and must clearly reflect income. The basis of valuation used in most cases is either cost, or cost or market value, whichever is the lower, as in this country. The LIFO method is regarded as a special method of applying the cost basis.

Since LIFO deems the latest acquired goods to be used first, even though physically they are not, this may seem incorrect. The fact is, however, that doubts under this head are based upon a fallacy. The conception of 'cost' as the actual price paid for an identifiable parcel of goods is in relation to the correct calculation of profits easily shown to be an error. The cost of goods charged into manufacture should not be based upon the physical accident of whether they are taken from the top or the bottom of a stock pile, as the 'average cost' method itself recognizes.

A simple demonstration of the fallacy of trying to justify the use of one method as compared with another by reference to the 'physical flow of goods' has been used in the United States. It assumes two coal dealers, one of whom when he gets a new delivery of coal dumps it on top of the existing heap; the other being more up to date uses a hopper. The flow of goods in the first case would be on the basis of 'last in, first out', if the coal is drawn from the top of the heap; in the second it would be drawn out from the bottom of the hopper and be on a 'first in, first out' basis. It would be absurd to say that the profit on sale should be shown as different in the two cases.

Internal Revenue Rules

Special rules regulating the use of LIFO have been incorporated in the Internal Revenue Code and may be summarized as follows:

(i) The taxpayer must use the LIFO method in calculating his profit for credit purposes, for the purpose of reports to shareholders, etc., during the relevant taxable year.

(ii) He may use the method for all his goods or only for certain classifications; alternatively, it may be used for some or all of his raw materials (including, if desired, the proportion included in goods in process and finished goods).

(iii) Once LIFO has been adopted it shall continue to be used in a consistent manner for the goods specified unless the Commissioner authorizes a change to a different method.

(iv) The use of LIFO is not dependent upon the character of the business or upon the identity or want of identity through commingling of any of the goods on hand.

(v) In determining profits for the year preceding that for which the method is first used the closing inventory of such preceding year for the specified goods shall be at cost.

(vi) The general principle of LIFO is to treat goods on hand at the end of a year as being made up of *first* those included in the opening inventory in the order of acquisition to the extent thereof and *second*, those acquired during the year. As stated under (v), for this purpose goods in the opening inventory of the first year of election are deemed to have been acquired at the same time and their cost to be their average cost.

(vii) Under the quantity matching method of LIFO, stock in hand at the end of a year in excess of that at the beginning is valued by reference to any of the following bases:
  (*a*) the actual cost of the goods most recently acquired;
  (*b*) the actual cost of goods acquired during the year in order of acquisition;
  (*c*) the average cost of all goods acquired during the year.

Application of LIFO

It will be evident that the application of the LIFO principle is fairly elastic. There are in fact two

[1] *Changing Concepts of Business Income.* Report of a Study Group of well-known United States accountants, business men and others initiated by The American Institute of Accountants under the auspices of the Rockefeller Foundation (The Macmillan Company, New York, 1952). See *The Accountant*, March 1st, 1952, leading article.

main methods of application – the 'quantity matching' method and the 'dollar value' method.

It is the first method which most people commonly associate with LIFO principles and, if it is also desired to use LIFO for costing or price control purposes, this method is probably the most suitable.

'Quantity matching' can, however, present certain complications arising from changes in the grades and classifications of goods in stock, the running down of one line and the substitution of another in its place and so on. This is particularly the case where there is a multiplicity of articles in stock.

For many purposes, therefore, the 'dollar value' method is very convenient since it obviates these difficulties; it is in fact a development and simplification of the original 'quantity matching' method. It also permits the calculation of the global inflation adjustment comprised in stocks without any interference with normal accounting methods.

Under this method (which may be used, subject to the Commissioner's approval, for any business) stocks are divided into broad 'classifications' comprising units which are closely related to each other in character. Thus in a department store, soft goods would constitute a different classification from hardware.

The basic principle of this method is that; when the stock of a particular classification has increased, a dollar amount of the closing stock equivalent to the dollar amount of the opening stock is deemed to have been on hand in the opening stock and only the excess has to be valued.

The method of valuing this excess will be explained later.

In appendix A is given an example of the working of LIFO on the 'quantity matching' method and in appendix B on the 'dollar value' method.

Comparison of Different Methods

A very simplified example bringing out the essential difference between the methods is as follows:

The opening stock of a classification of goods consists of 1,000 kettles costing \$1 each and 1,000 pans costing \$3 each, total cost \$4,000. During the year 4,000 kettles were purchased at \$2 each and these comprised the whole of the stock of this classification at the end of the year.

The different methods of valuation of the closing stock are:

(*a*) *First in, first out* (*or actual cost*)
4,000 kettles at \$2 each \$8,000

(*b*) *Last in, first out* (*quantity matching*)
1,000 kettles at opening price \$1,000
3,000 kettles at \$2 each .. 6,000
——— \$7,000

(*c*) *Last in, first out* (*dollar value matching*)
4,000 kettles valued at opening price of \$1 each \$4,000

Under example (*c*) if the closing stock valued at opening prices had been more than \$4,000 the excess would have to be valued. The principle of valuing this excess in the case of the 'dollar value' method is clearly shown in appendix B but for those who like formulae the following can be used:

$$\text{LIFO stock value} = A + (B - C)\frac{D}{B}$$

where A = LIFO value of opening stock for the year; B = closing stock for the year at *first year* opening stock prices; C = opening stock for the year at *first year* opening stock prices and D = closing stock at current values.

In the first year of LIFO A will of course be the same as C.

The term 'current values' may be taken to be either the average cost of all purchases during the year or the latest invoice price prior to the close of the year.

It may be necessary to stress the point that the formula is only used when physical stocks have increased, i.e. when the closing stock valued at first year opening stock prices exceeds the opening stock also so valued.

A simple illustration based on a variation of the last example is as follows:

Assume that 6,000 kettles costing \$2 were purchased during the year and that these comprised the whole of the stock at the year end:

(*a*) *First in, first out* (*or actual cost*)
6,000 kettles at \$2 each \$12,000

(*b*) *Last in, first out* (*quantity matching*)
1,000 kettles at opening price \$1,000
5,000 kettles at \$2 each .. 10,000
——— \$11,000

(*c*) *Last in, first out* (*dollar value matching*)
LIFO stock value:

$$\$4{,}000 + (\$6{,}000 - \$4{,}000)\frac{\$12{,}000}{\$6{,}000} = \$8{,}000$$

This method of valuing additional stocks has been approved by the United States Tax Court. In effect it consists of using a privately calculated price index based on the taxpayer's actual circumstances. Other methods can, however, be used, where appropriate, making use of any other

suitable index numbers published by trade associations or by such bodies as the United States Bureau of Labor Statistics.

The Case for LIFO

The basic argument in favour of LIFO may be said to be that nearly all businesses must have a stock of materials or goods on hand at all times and, as this stock must be maintained in order that business may be continued, it is the cost of the replacements which should be taken into account in calculating profits.

An oil company, for example, must have very large stocks of oil in transit between wells and consumers, in tankers, pipe-lines and stores, and these stocks cannot earn profits. As oil is sold at one end of the supply line it must be replaced at the other; if such a company increases the value of the stocks in the supply line year after year and pays taxes and dividends out of the 'profit' *which can never be realized*, it will soon find that it has eaten into its working capital to such an extent that it will have to resort to borrowing or re-financing.

The principle is thus similar to that formerly adopted by the railways and public utilities on the 'double account' system in relation to fixed assets and still adopted by certain concerns, that of charging revenue with the cost of replacing or restoring what has been consumed or sold, or has gone out of existence, annual renewal provisions being created for this purpose. It is interesting to note that in its evidence to the Royal Commission, paragraphs (331) to (335)[1], the Institute has recommended a substantially similar method in relation to fixed assets for taxation purposes only. It has explicitly stated the inconsistency of this recommendation with that in paragraph (130)[2] which submits that 'profits for income-tax purposes shall be computed in accordance with accepted accounting principles'.

It is submitted that there is and should be no inconsistency and that the recommendation for tax purposes recognizes the essential soundness of the earlier principle.

One of the principle arguments of the advocates of LIFO is the converse of the argument that LIFO methods distort trading profits by eliminating violent fluctuations therefrom. It is alleged that, on the contrary, it corrects the distortions due to changes in the value of money and that great benefits accrue to the national economy by so doing. The total effect on the economy of the inclusion in declared profits of unrealized and unrealizable stock profits (and of showing stock losses in times of depression) must be very great. It is claimed that the general adoption of LIFO would do a great deal to even out the ups and downs of the trade cycle.

That very briefly is why it is so important that current sales should be related to current purchases.

Some Arguments against LIFO

The main criticisms of LIFO, that it distorts profits and is a mere device to avoid taxation, have already been dealt with. There are, however, other misapprehensions about its application or effect.

That these exist in the most eminent circles is evident from the recent remarks of Sir Harold Howitt, when he said:

> 'If any item of stock is bought, say for £10 in January and sold for £15 in December, when it could be replaced at £14, some would maintain that profit was only £1. . . . If the £4 is taken to stock reserve the net stock valuation would soon become a red ink figure, and yet if this is not done (i.e. if LIFO principles are used merely as a method of valuing the stock-in-trade and not as a means of relating each sale to its replacement cost) the basic argument for LIFO has been discarded.'[3]

The first comment is that the term 'replacement cost' is hopelessly vague. Replacement cost at what date? And what would happen if the goods are replaced at some other cost or not at all? LIFO does not depend on these speculations but is based on the actual facts of the situation during a financial year.

Further, the 'basic argument for LIFO' is that it eliminates inflated stock values from the balance sheet and by so doing, automatically eliminates the inflation element from profit. How can these complementary aims be divergent?

What Sir Harold Howitt is really castigating are the inaccuracies of certain improvised methods semi-humorously described as NIFO for which the writer holds no brief.

A further argument sometimes used is that LIFO results in 'unrealistic' stock values appearing in the balance sheet. It is difficult to take such an argument seriously when one considers how completely unrealistic are most values in present day balance sheets, expressed as they are in pounds of many different years or values. Under the FIFO method a business can show the same physical quantity of stocks as £100,000 at the end of one year, £200,000 at the end of the next year and £300,000 at the end of the third year, whereas under LIFO the value would appear at

[1] *The Accountant*, March 29th, 1952, pages 336–337.
[2] *The Accountant*, March 22nd, 1952, page 302.
[3] *The Accountant*, April 12th, 1952, page 385.

£100,000 throughout; it would then be clear that the quantity had remained unchanged. This demonstrates the value of LIFO as an instrument of financial control.

Another common misapprehension is that the adoption of LIFO necessitates radical changes in normal accounting procedure.

This is quite wrong; there is no need for LIFO to upset any existing costing or stock recording methods. All that is needed, on the dollar value method at least, is a simple year-end adjustment and, if desired, estimated adjustments during the year based on the full year adjustment.

It is contended that the LIFO valuation is, in relation to a going concern, more realistic than the valuation on normal methods. However, there is no reason why values based on the normal method should be lost to sight. The LIFO adjustment can be represented in the books by a stock provision which in the published balance sheet would be deducted from the book figure of stock. Whether or not it should actually be disclosed is a matter of opinion.

The objections which the Council of the Institute has to LIFO are not clearly detectable from Recommendation XV especially as it has lumped together in paragraph 303[1] a number of diverse methods of valuing stock-in-trade. It should be clear from this article that LIFO does not depend upon personal estimates and opinions and provides a basis of calculation which is sound in principle.

Reductions of Stocks

One difficulty of the LIFO method is the danger of stocks running down. The result of this would be that profits would be measured by reference to the difference between LIFO cost of the stocks used and their selling value. Admittedly the additional profit so shown could not be greater than the LIFO deductions already allowed in previous years as excess of current cost over original cost, but this position is obviously to be avoided if possible.

So far as any reduction in stocks is made good in the same accounting period the LIFO valuation is, of course, not affected at all.

In the U.S.A. it is provided, for tax purposes, that where, as a consequence of supply difficulties due to war conditions, a taxpayer's closing stock for any year is less than his opening stock, he may elect to make good the deficiency out of subsequent increases of stock. If the cost of replacing the goods is greater than their value in the opening LIFO stock of the year in which they were used, the excess is deductible in recomputing the tax due for the year (and conversely if the replacement cost is lower).

The expression 'war conditions' covers any disruption of normal trade relations between countries and any circumstances arising by reason of a state of national preparedness.

So far as any reduction in stocks is voluntary this concession does not apply and there would in consequence be a loss of some portion of the original relief obtained by adopting the LIFO basis.

It should be remembered that, even if over a period of years the use of LIFO should make no difference to the total profits for the period, there is still the great advantage of having the fluctuations evened out during the period, which, by itself, can be of considerable benefit.

The Timing of a Change to LIFO

The timing of a change to LIFO is very important, more particularly if it is permitted for tax purposes. If stocks are 'frozen' under LIFO at peak levels and prices subsequently fall the change would be disadvantageous in the short run.

The general economic trend over a long period is, however, one of gradual inflation despite occasional price recessions and occasional booms, and there is every indication that this will continue.

There is no justification either for assuming that LIFO (even if adopted for tax purposes) should be adopted only when the price level is lowest. In the first place it is hardly possible to know when this point has arrived. Moreover there are other factors that come into play as follows:

(i) While companies using LIFO cannot take book losses on stock while stocks are maintained (i.e. if, as in the U.S.A. write-downs to market value are not permitted) they can and will take them if stocks are reduced, as in any case may occur when trading conditions are bad.

If, of course, write-downs to market value were permitted as is now being advocated in the United States, the problem would not exist at all.

(ii) Increased taxes on the higher profits caused by the use of LIFO when prices are falling may be offset by losses or lower profits in other directions.

(iii) In times of depression there is a tendency for tax rates to be reduced, and the tax saved when prices were rising might be

[1] *The Accountant*, May 31st, 1952, page 579, lines 46–57.

greater than the extra taxes payable as a result of the fall in prices.

A very important factor to be taken into account when LIFO is allowed for tax purposes is the effect on an excess profits tax or a possible excess profits tax.

It should be added that, in the United Kingdom, where LIFO has not up to now been admitted for tax purposes, it would be most unjust if, as a result of its adoption at this late stage, companies were prejudiced by bringing back to profits a greater sum than they had previously been allowed. It would be elementary justice if, on any change of law or practice, this principle was admitted by the Inland Revenue in view of the huge sums which they have derived from tax on inflated stocks in the past few years.

Which Businesses Should Adopt LIFO?

The Controllers' Institute of America has listed the types of business which would benefit most by the adoption of LIFO.

They are businesses where:

(*a*) Large stocks have to be maintained because of a slow rate of turnover resulting from lengthy processing or conditions of merchandising.

(*b*) The investment in stocks is relatively large as compared with other assets.

(*c*) The stock consists of a few basic and imperishable commodities which are subject to wide price fluctuations.

(*d*) The cost of raw materials constitutes a substantial part of the cost of the finished product and increases in the price of raw materials are promptly reflected in the price of the product.

As has already been mentioned LIFO need not be used for the entire stock of a business. In the United States there has been a great deal of picking and choosing. Eastman Kodak, for example, use it for silver only, Consolidated Cigar Corporation for leaf only and Standard Oil of Kentucky for nearly all stocks but with the exclusion of freight.

Various pronouncements have also been made by such bodies as The American Institute of Accountants suggesting that

> 'where sale prices are promptly influenced by changes in reproductive costs, an assumption of the "last in, first out" flow of cost factors may be the more appropriate. Where no such cost price relationship exists, the "first in, first out" or an "average" method may be more properly utilized.'

It is understood, however, that in practice the nature of the business has come to have little or nothing to do with decisions as to whether LIFO should or should not be adopted.

Conclusion

In concluding this brief review of a very large subject it should be said that no one claims that LIFO is a perfect system of stock valuation nor that it is suitable for all kinds of business. It is reasonably contended, however, that for many businesses its advantages far outweigh its disadvantages and that it is a better method than any hitherto devised.

All systems of stock accounting must be based on certain agreed conventions but these conventions should always be subject to rethinking in the light of changing conditions.

In a recent lecture at Harvard, Mr Percival F. Brundage, senior partner in Price Waterhouse & Co, New York,[1] referred to the conservatism of accountants, especially in the field of financial accounts, as a road-block in the path of accounting and continued:

> 'The scientist, on the other hand, is always working with new media and is willing to modify a general principle, no matter how firmly adopted. Doctors are continually trying to find new medicines and new treatments for the ailments of their patients. We accountants will have to develop greater boldness and imagination if we are to tackle adequately the new problems that lie ahead of us.'

In Recommendation XV recently issued by the Institute, the Council states that it is unable to regard any of the suggestions so far made for a change in accounting methods to deal with inflation as an acceptable alternative to existing accounting principles. This appears to include the LIFO method. Yet the Council also states that the results shown by accounts drawn up on a historical cost basis are not necessarily suitable for purposes such as price-fixing, wage negotiations and taxation, unless in using them for these purposes due regard is paid to the amount of profit which has been retained in the business for its maintenance.

These statements seem to show a striking detachment from the pressing problems of industrial and commercial life created as a result of inflation. Can this problem really wait until the perfect system has been evolved and become 'generally acceptable'? It is submitted that in LIFO an effective instrument already exists for dealing with a substantial part of the problem.

[1] Reprint of a Dickinson Lecture in 1951 before the Harvard School of Business Administration, delivered by Percival F. Brundage.

APPENDIX A

Example of Quantity Matching LIFO

First Year

		£	£
Opening stock of a classification:		1,000 units at 10	10,000

			£
Purchases – January	..	50 units at 11	550
February	..	100 units at 12	1,200
March	..	300 units at 13	3,900
June ..	..	200 units at 13·5	2,700
September	..	100 units at 14·5	1,450
		750 units at 13·07	£9,800
Closing stock ..	..	1,350 units	

LIFO value of closing stock

Basis (*a*) – Most recent purchases:

		£	£
		1,000 units at 10	10,000
September	..	100 units at 14·5	1,450
June ..	..	200 units at 13·5	2,700
March	..	50 units at 13	650
		1,350 units	£14,800

Basis (*b*) – In order of acquisition:

		£	£
		1,000 units at 10	10,000
January	..	50 units at 11	550
February	..	100 units at 12	1,200
March	..	200 units at 13	2,600
		1,350 units	£14,350

Basis (*c*) – At annual average:

	£	£
	1,000 units at 10	10,000
	350 units at 13·07	4,575
	1,350 units	£14,575

Second Year

Purchases ..	.. ..	details not required.
Closing stock	.. ..	1,100 units

LIFO value of closing stock

Basis (*a*) – Most recent purchases:

		£	£
		1,000 units at 10	10,000
March	..	50 units at 13	650
June ..	..	50 units at 13·5	675
		1,100 units	£11,325

Basis (*b*) – In order of acquisition:

		£	£
		1,000 units at 10	10,000
January	..	50 units at 11	550
February	..	50 units at 12	600
		1,100 units	£11,150

Basis (*c*) – At annual average

	£	£
	1,000 units at 10	10,000
	100 units at 13·07	1,307
	1,100 units	£11,307

Note. – It will be seen that where there is a decrease in the closing stock, reference is needed only to the opening stock for the year and, no matter which of the three bases has been adopted for valuing increases in a year, the strict LIFO principle is applied, the goods on hand being deemed to be those first purchased.

Third Year

Purchases ..	.. ..	details not required.
Closing stock	.. ..	900 units

LIFO value of closing stock

On all three bases ..	900 units at £10	£9,000

APPENDIX B

Example of Dollar Matching LIFO

First Year

Opening stock

Grade	*Quantity lbs.*	*Average per 100 lbs.* $	*Value* $	*LIFO value of closing stock* $
A	20,000	70.00	14,000	
B	25,000	50.00	12,500	
C	30,000	30.00	9,000	
D	5,000	10.00	500	
			$36,000	

Closing stock at opening stock prices

	lbs.	$	$	$
A	30,000	70.00	21,000	
B	30,000	50.00	15,000	
C	25,000	30.00	7,500	
D	5,000	10.00	500	
			44,000	
LIFO value of opening stock ..			36,000	36,000
Increment ..	..	..	$8,000	
110 per cent × $8,000 ..	..	..		8,800
				$44,800

Closing stock at current values

	lbs.	$	$
A	30,000	75.00	22,500
B	30,000	55.00	16,500
C	25,000	35.00	8,750
D	5,000	10.00	500
			$48,250

Price movement: $\frac{\$48,250}{\$44,000} = 110$ per cent

LIFO adjustment

	$
Book value of closing stock (say)	46,300
LIFO value of closing stock ..	44,800
LIFO adjustment	$1,500

Note. – The calculation is set out in full to make it quite clear. The use of the formula – LIFO value $= A + (B - C)\ \frac{D}{B}$ gives the same result:

$$\$36,000 + (\$44,000 - \$36,000)\ \frac{\$48,250}{\$44,000} = \$44,800$$

Second Year

Closing stock at First Year opening stock prices:

Grade	*Quantity lbs.*	*Average per 100 lbs.* $	*Value* $	*LIFO value of closing stock* $
A	35,000	70.00	24,500	
B	25,000	50.00	12,500	
C	30,000	30.00	9,000	
D	7,500	10.00	750	
			$46,750	

	$	
Basic LIFO stock	36,000	36,000
First year increment ..	8,000	8,800
Second year increment ..	2,750	
	$46,750	
117 per cent × $2,750		3,217
		$48,017

Closing stock at current values:

	lbs.	$	$
A	35,000	77.50	27,125
B	25,000	60.00	15,000
C	30,000	40.00	12,000
D	7,500	7.50	562
			$54,687

Price movement: $\frac{\$54{,}687}{\$46{,}750} = 117$ per cent

LIFO adjustment

	$
Book value of closing stock (say)	52,000
LIFO value of closing stock ..	48,017
Cumulative LIFO adjustment	3,983
First year LIFO adjustment ..	1,500
Second year LIFO adjustment	$2,483

Third Year

Closing stock at first year opening stock prices:

Grade	*Quantity lbs.*	*Average per 100 lbs.* $	*Value* $	*LIFO value of closing stock* $
A	20,000	70.00	14,000	
B	25,000	50.00	12,500	
C	35,000	30.00	10.500	
D	—	—	—	
			$37,000	

	$	
Basic LIFO stock	36,000	36,000
Part of first year increment ..	1,000	
	$37,000	
$1{,}000 \times \frac{\$8{,}800}{\$8{,}000}$		1,100
		$37,100

LIFO adjustment:

	$
Book value of closing stock (say)	43,000
LIFO value of closing stock ..	37,100
Cumulative LIFO adjustment	5,900
First and second year LIFO adjustment	3,983
Third year LIFO adjustment	$1,917

Fourth Year

Closing stock at first year opening stock prices:

Grade	*Quantity lbs.*	*Average per 100 lbs.* $	*Value* $	*LIFO value of closing stock* $
A	20,000	70.00	14,000	
B	20,000	50.00	10,000	
C	30,000	30.00	9,000	
D	—	—	—	
			$33,000	
Basic LIFO stock (part) ..			$33,000	$33,000

LIFO adjustment:

	$
Book value of closing stock (say)	38,000
LIFO value of closing stock ..	33,000
Cumulative LIFO adjustment ..	5,000
LIFO adjustments for previous years	5,900
Fourth year LIFO adjustment	$900—

Fifth Year

Closing stock at first year opening stock prices:

Grade	*Quantity lbs.*	*Average per 100 lbs.* $	*Value* $	*LIFO value of closing stock* $
A	25,000	70.00	17,500	
B	25,000	50.00	12,500	
C	35,000	30.00	10,500	
D	5,000	10.00	500	
			$41,000	

	$	
Basic LIFO stock at end of fourth year	33,000	33,000
Increment	8,000	
	$41,000	
117 per cent × $8,000		9,360
		$42,360

Closing stock at current values:

	lbs.	$	$
A	25,000	75.00	18,750
B	25,000	60.00	15,000
C	35,000	40.00	14,000
D	5,000	7.50	375
			$48,125

Price movement: $\frac{\$48{,}125}{\$41{,}000} = 117$ per cent.

LIFO adjustment:

	$
Book value of closing stock (say)	47,500
LIFO value of closing stock ..	42,360
Cumulative LIFO adjustment ..	5,140
Net LIFO adjustments for previous years	5,000
Fifth year LIFO adjustment ..	$140

WEEKLY NOTES

Our Supplement

We have pleasure in presenting to our readers in this issue of *The Accountant*, a photograph of the President and four of the officers of the Sixth International Congress on Accounting, which commences in London, at the Royal Festival Hall, on Monday.

Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., President of the Congress, was President of The Institute of Chartered Accountants in England and Wales in 1945–46. He is a partner in the firm of Peat, Marwick, Mitchell & Co.

Mr C. Percy Barrowcliff, F.S.A.A., Vice-President of the Congress, is President of the Society of Incorporated Accountants and Auditors and senior partner in the firm of C. Percy Barrowcliff & Co, of Middlesbrough and Leeds.

Mr H. Garton Ash, O.B.E., M.C., F.C.A., is Chairman of the Congress Council. He was President of the Institute in 1950–51 and is a partner in the firm of James, Edwards & Co, of London.

Mr A. Stuart Allen, F.S.A.A., Vice-Chairman of the Congress Council, was President of the Society from 1949–51.

Mr Alan S. MacIver, M.C., B.A., Secretary of the Congress, has been Secretary of the Institute since 1950; he joined the Institute staff as Assistant Secretary in 1935 and was appointed Deputy Secretary in 1945.

Birthday Honours

We offer our congratulations to those members of the profession whose names appear in the Birthday Honours List.

Among the Knights Bachelor we note the name of Mr B. H. Binder, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, and a past president of the Institute. Mr Binder is senior partner in the firm of Binder, Hamlyn & Co, Chartered Accountants, of London, Manchester and Sydney.

One of the seven names of those becoming Knights Commander of the Royal Victorian Order is that of Sir Harry Peat, G.B.E., M.A., F.C.A., senior partner in the firm of Peat, Marwick, Mitchell & Co.

Three members of the profession receive the O.B.E.: they are Mr V. Bates, M.A., A.C.A., lately Controller of Finance, The Forestry Commission; Lieut.-Col. J. Ellis Evans, T.D., F.C.A., Royal Artillery, T.A.; Mr W. J. Phillips, M.B.E., A.S.A.A., Principal Accountant, The Admiralty.

The M.B.E. is awarded to Mr E. Bullard Gaul, F.C.A., Senior Executive Officer, Ministry of Pensions, Mr A. E. Hawker, A.S.A.A., Assistant District Auditor, Ministry of Housing, and Mr C. D. Morpeth, F.S.A.A., of Wellington, New Zealand, for services to the community.

Exhibition of Early Books on Book-keeping

The exhibition of early accounting records and books on book-keeping now being held in Guildhall in connexion with the Sixth International Congress on Accounting shows every indication of arousing considerable interest. The earliest exhibit is an account and memoranda book of the Brewers' Company dated 1418–1440; there are also the churchwardens' accounts, 1422–1559, of the parish of St Mary at Hill (in scroll form) and the churchwardens' accounts from 1468 to 1472 of the parish of St Botolph Without Aldersgate. These exhibits are from the archives deposited in the muniments room of Guildhall.

Also exhibited is an original copy of Pacioli's *Summa di Arithmetica* published in Venice in 1494. Pacioli was the foremost mathematician of his day, and the main interest of his book is in the section on book-keeping. This was the first work on the double-entry system ever to be published, and it formed the basis of all works on this subject for over a hundred years. One of the first to be printed from loose metal type, it is remarkable how the vegetable dye ink in this book has remained black and fresh, and the hand-made rag paper crisp and white, to this day. It is being shown with a page by page translation which is changed each day.

Other interesting exhibits include sixteenth-century books on book-keeping in English, Dutch, German and Spanish – some of great rarity – from the valuable collection of The Institute of Chartered Accountants in England and Wales. The Society of Incorporated Accountants and Auditors and Christ's Hospital have also contributed items of particular interest. Other exhibits from Guildhall archives include an account for cloth supplied by Sir William Turner to Samuel Pepys, the valuation of a Wapping china shop and some early ledgers and accounts.

The exhibition which was opened last Monday will remain open to the general public each day from 10 a.m. to 5 p.m. (Sundays excepted) until Saturday, June 28th, admission being free.

Sharp Fall in Bank Advances

London clearing banks' figures for May show a contraction in 'net' deposits which is in itself some indication that monetary management is meeting with success in controlling the total volume of credit. The actual trend of events is, however, somewhat complicated. For example, there was a drop of £62 million in advances. But this figure is remarkably similar to the 40 per cent of the British Electricity Authority's new loan called up over the period under discussion. (The total amount of this loan is £150 million.) Apart from this large item there had therefore probably been a small reduction in total advances.

This is less than would be suggested, however, by the large amount of conversation one hears about the pressure to reduce overdrafts.

Another feature of the returns is the large fall in the amount of commercial bills held by the banks. They are down £31 million on the month. This item, together with the drop in advances, would suggest a fall in credit of around £90 million on the month. But there has been an increase of £84 million in the amount of Treasury bills held by the banks. This additional finance has probably been caused by a seasonal swing in the needs of the departments when the inflow of governmental revenue is low, less finance from overseas as the trade gap has narrowed, and the operation of the B.E.A. loan which was largely subscribed by the departments. Additional Treasury bills created to enable the departments to do this here apparently had the effect to a large extent of changing advances into Treasury bills so far as the banks are concerned.

E.P.U. to be Renewed

The European Payments Union is to carry on after the end of this month. This decision was reached by the O.E.E.C. Council of Ministers last week-end. There are three principal provisions brought into effect by the decision – one concerning the rate of gold payments by debtors, one concerning a guarantee fund and the last dealing with the chronic creditor position of Belgium.

On the first point, part payment of debit balances in gold is to be accelerated. In the past debits were settled in an increasing proportion of gold as the total debit increased. This proportion has now been raised so that larger gold payments become due in the earlier stages of the accrual of debit balances. Secondly, a guarantee fund of $100 million is to be set up to prevent the convertible assets of the Union from falling below that figure. In this way it is no doubt expected that the Union will be able to carry on without a periodic 'blood transfusion' from dollar sources. This perpetual tendency of the Union to run an overall deficit with the dollar area is, as was pointed out at the meeting of the Ministers, the chronic difficulty of E.P.U.

The third matter concerned the position of Belgium. Briefly, that country's credit position will be dealt with, first, by raising the Belgian quota. There is also to be a gold settlement in favour of Belgium on July 1st and the balance of the outstanding credits will be worked off by the principal debtors (Britain and France) by the provision of arms. The United States will make off-shore purchases from Belgium at the same time to prevent these arms supplies from adversely affecting Belgian industry.

Oil without Abadan

The accounts of two of the largest British oil companies have been eagerly awaited this year not only for their financial results but also to see how this country and the world oil market have closed the gap left by the withdrawal of supplies from Abadan. It would appear that the Anglo-Iranian Oil Company was able to offset its losses of crude oil from Abadan to some extent, by the rise in its crude oil supplies from elsewhere in the Middle East – notably from Kuwait. This year the gap left by Abadan may be fully closed by the increase in output from other Middle East wells. This resilience in supplies is quite remarkable and should be read against a background of continuous increase in the world demand for oil. The Shell and Royal Dutch Group increased its input of crude oil by nearly 18 per cent last year.

Rather more difficult has been the problem of providing enough refining capacity to deal with the crude oil. The Anglo-Iranian Company has been able to take advantage of the expanding capacity in this country, but last year it had to close the gap left by the absence of refined oil from Abadan by importing something like a third of its needs from other sources. It may be that this will be necessary, though to a decreasing extent, for some time to come.

Unemployment in May

The general pattern of unemployment changed but little from early April to early May. Trends which were emerging during the early spring have been carried on into the later part of the season. On May 12th there were 467,000 unemployed of whom 147,100 were temporarily stopped compared with 467,400 on April 21st. But compared with May last year there has been a noticeable worsening of the position. In May 1951 the unemployed were 1 per cent of the total estimated number of employees; in May this year the corresponding percentage was 2·2.

Going back to the end of April, the latest period for which a detailed analysis of the employment situation is available, there was an increase in the size of the working population but there was also an increase in the unemployed compared with a month earlier. The basic industries increased their numbers by 19,000 – agriculture and fishing showing a large seasonal increase of 15,000 – and there was also a useful 4,000 increase on colliery books. A miscellaneous group which includes building and contracting also recorded an advance in all categories. But in the general manufacturing group experience was much more mixed. Textiles laid off a further 23,000 and a general category lost 10,000. Vehicles and the food, drink and tobacco group put on 9,000 between them.

Broadly, then, the picture is not greatly changed since the last figures were put out a month ago. There is still a noticeable swing away from textiles and increased recruitment in the mines and agriculture. To some extent, therefore, labour is moving into the essential industries and the wide categories for which figures are available do not give a very clear idea of what is happening in some of the crucial engineering industries.

FINANCE AND COMMERCE

With the hard core of the present problem – the overseas trade balance and the trend of gold and dollar reserves – still the stock market's main concern, business remains small and tentative with the market narrow and uncertain. There is little in the present situation to encourage any broadening of investment interest, and conditions are likely to remain quiet for some time.

'Highlights'

A very good showing is made by the accounts of F. Perkins Ltd, the diesel engine makers. This company, after long years of development under the wing of the Finance Corporation for Industry, has now opened the business to the public investor and these are the first accounts to be issued to the public as such.

We take from the accounts a 'Summary of Financial Highlights'. It is good in its way especially in its presentation of a turnover figure. We notice, however, the tendency to present snippets of unrelated information which we should add, is not solely confined to this company.

We would suggest that what is mainly needed in these 'highlights' is in regard to revenue, something on the lines of the Tetley interim with what the profit means in earnings and distribution per equity share, and in regard to the position, the very briefest balance sheet reduced to group totals.

Incidentally, may we suggest that this is a point of time at which Perkins should consider the publication of interim statements.

	1951 Year ended Dec. 31st	*1950* Year ended Dec. 31st
Turnover..	£9,348,984	£6,660,177
Profit	£926,875	£604,711
Profit as a per cent of turnover	9·9%	9·1%
Current assets	£4,182,646	£2,589,515
Current liabilities	£1,812,952	£1,282,727
Net current assets	£2,369,694	£1,306,788
Fixed assets	£1,755,896	£1,135,364
Loan capital	£1,500,000	£1,450,000
Share capital	£917,817	£218,504

County Accounts

A word of thanks to Mr W. F. Serby, County Treasurer for Buckinghamshire, for his County Statistical booklet. Compared with some, it is a modest publication of 6 by 9¾ inches and 21 pages and it is confined to the bare statistical information without graphs or the pictorial aids which are sometimes considered necessary for the understanding of figures. It is wide enough in scope, however, to give the student of municipal affairs sufficient for lengthy study. We use the word 'student' in a wide sense because local authority accounts are not everyone's meat. One has to become absorbed in local affairs really to appreciate their significance.

This booklet covers the main ground. Population (up 44 per cent in twenty years); population densities; rateable values with values per head of population; and the estimated product of a penny rate. On succeeding pages, there is the mileage of roads; police force and fire brigade strengths; the extent to which the county is engaged in agriculture; and the division of the insured population over the more important industries, national and local government, incidentally, taking five people in every 100. The booklet ends with the housing statistics, a most vital subject, showing the number of houses provided before and since the last war.

Port Accounts

This week's reprint breaks fresh ground. We give the accounts of the Port of Bristol for which we are indebted to to the accountant, Mr J. A. Philpott, F.A.C.C.A. Unfortunately, it is impossible to do more than print the accounts which leaves out a wealth of statistical detail showing borrowing powers and how they have been exercised, statistics of ship arrivals and departures, of imports and exports, etc. Also, we can do no more than refer to the series of graphs and the very interesting explanations which accompany them.

An idea of the scope of the graphs is seen in that relating wholesale prices to the average revenue per ton. Prices have risen to over 300 (1939–100) but revenue to only 175. This in part was due to increased trade and a reduction in loan charges but it is also noted that revenue would have followed prices more closely had it been practicable to provide fully for renewals and replacements at current costs.

We should also add that a wide analysis of the revenue accounts covering the income and expenditure over five years and 1939 is given with the statistical portion.

Seventy-five Years

The business of Kerry's (Great Britain) Ltd, a £2 million group of companies, dates back to the Mr Alfred Kerry who in 1877 in the days of 'penny-farthing' and solid tyres, was one of the earliest distributors of cycle and, subsequently, motor tyres. The company has now a very wide range of products covering cycle and motor accessories, machine tools and light engineering, radio, television and electrical goods.

In this, its seventy-fifth year, a milestone of enterprise has been reached, Mr E. P. Richardson, F.C.A., being at the helm as chairman with Mr E. Cassleton Elliott, F.S.A.A., as vice-chairman.

Money Market

Treasury bill applications totalled £306½ million on June 7th and lowering the bid to £99 7*s* 11*d* the market received 71 per cent of requirements. The average discount rate rose to a new peak of £2 8*s* 4·03*d* per cent. This week's offer is £240 million.

PORT OF BRISTOL AUTHORITY

C. – GENERAL REVENUE ACCOUNT for the year ended March 31st, 1952

1950–51	INCOME		
£		£	£
	Dock and City Dues:		
280,082	Vessels	362,478	
374,042	Goods	510,940	
654,124			873,418
	Traffic Department: Receipts from Cargo Handling and Sundry		
678,889	Services	975,603	
550,681	*Less* Expenditure	705,421	
128,208			270,182
43,173	**Railway Executive in respect of Interchanged traffic**		51,199
199,618	**Warehouse Department:** Rent and other Receipts	201,569	
54,534	*Less* Expenditure	65,370	
145,084			136,199
	Miscellaneous Revenue:		
147,154	Receipts from Gas, Water and Electricity	170,860	
134,153	*Less* Expenditure	150,931	
13,001		19,929	
69,287	Rents of Properties, Easements, etc.	74,602	
13,636	Graving Dock and Slips	17,110	
3,709	Sale of Old Plant and Materials	7,592	
7,490	Other Receipts	15,888	
107,123			135,121
£1,077,712			£1,466,119
	EXPENDITURE		
£		£	£
	Maintenance and Renewal: Dock Works, Waterways and all Buildings,		
310,406	Structures, Plant and Machinery other than Dredging Plant	350,751	
107,178	*Less* Charged to Special Accounts (Renewal Fund etc.)	127,219	
203,228			223,532
92,360	**Dredging** including Maintenance and Renewal of Dredging Plant	176,148	
4,475	*Less* Charged to Special Accounts	3,900	
87,885			172,248
84,909	**Docking and Undocking Vessels and Conservancy**		93,296
	Miscellaneous Charges:		
	Fire and Other Insurances:		
2,965	Premiums to Companies	2,615	
26,945	Dock Insurance Fund Contributions	28,976	
29,910		31,591	
3,668	Rent of Land and Buildings, Easements, etc.	3,724	
17,673	National Insurances	17,937	
62,326	Superannuation: Contributions etc.	62,812	
14,043	Rates	15,691	
5,687	Telephones: Rents, Fees and Salaries	6,324	
4,964	Advertising and Publicity	6,350	
24,593	Police and Dock Watchmen	26,474	
7,824	Canteens: Expenditure less Receipts	6,207	
18,054	Other Charges	28,411	
188,742			205,521
	General Administration:		
75,819	Salaries, Office Expenses, Loan Management Expenses and Stamp Duties, Legal and Audit Fees		76,230
437,129	**Balance carried to Net Revenue Account**		695,292
£1,077,712	(Gross Revenue £2,387,841 / *Less* Gross Expenditure £1,692,549)		£1,466,119

D. – NET REVENUE ACCOUNT for the year ended March 31st, 1952

1950–51	INCOME		
£		£	£
437,129	**Balance of General Revenue Account**		695,292
	Interest:		
4,253	Other Corporation Committees etc.	10,879	
313	Tax Reserve Certificates	200	
	Investments (Gross):		
3,472	Stock (Sinking Fund) Account	3,423	
25,318	Revenue Funds	20,821	
33,356			35,323
	Superannuation:		
—	Charged in previous years but now included in revised Equalization Charge		16,000
£470,485			£746,615
	EXPENDITURE		
£	**Loan Charges**	£	£
	Interest on Bristol Corporation Loans:		
69,397	3½% Perpetual Debenture Stock	69,397	
74,682	Consolidated Loans Fund	73,605	
144,079		143,002	
	Loan Redemption:		
6,056	Sinking Fund: 3½% Perpetual Debenture Stock	4,632	
3,376	Interest on Net Accumulations	3,789	
9,472	Interest on amounts applied to New Capital Works	9,472	
129,401	Consolidated Loans Fund: Repayments	132,437	
148,305		150,330	
292,384			293,332
	Taxation		
	Amount based on income of the year and after adjustment for sums carried to Equalization Account:		
47,138	Income Tax	150,500	
—	Profits Tax	26,200	
—	Excess Profits Levy (Jan. to March 1952)	7,200	
			183,900
31,397	**Capital Works charged direct to Revenue**		48,102
30,000	**War Damage Contribution**		30,000
	Contributory Sick Pay Scheme:		
200	Interest on Members' Balances		100
401,119			555,434
	Allocations and Interest:		
17,982	Dock Contingency Fund: Interest	7,074	
12,610	Dock Renewal Fund	100,000	
—	Dock Insurance Fund: Interest	11,117	
62,478	Income Tax Act, 1945 – Allowances Account	—	
5,361	War Damage Payments Account: Interest	5,000	
—	Deferred Maintenance and Dredging	67,990	
98,431			191,181
29,065	**Deficiency carried to Dock Contingency Fund**		—
£470,485			£746,615

Note. – The figures for 1950–51 have been adjusted where necessary to the same basis as for the current year.

PORT OF BRISTOL AUTHORITY

E. – BALANCE SHEET at March 31st, 1952

1951	CAPITAL			
£		£	£	£
	Capital Receipts:			
11,787,259	Total Receipts as per Statement B (pages 8–9) ..	12,373,791		
7,246,829	*Less* Loans repaid and Receipts other than Loans	7,796,563		
	Outstanding Debt:			
4,540,430	Loans		4,577,228	
	Unfunded Expenditure:			
243,990	Temporary Loan from Revenue (see *contra*) ..	278,447		
12,243	Creditors	66,032		
			344,479	
4,796,663				4,921,707
6,587,046	**Excess of Fixed Assets over Outstanding Debt** (Including £147,642 for Debt Redemption)			7,059,780
£11,383,709				11,981,487
	REVENUE			
£	**Revenue Reserves**			
	Dock Contingency Fund:			
250,000	As per last Balance Sheet	241,309		
17,982	Added during year	7,074		
7,257	Net Revenue Account – Balance transferred ..	—		
33,930	*Less* Debited during year	11,914		
241,309			236,469	
	Dock Renewal Fund:			
86,342	As per last Balance Sheet	85,559		
12,610	Added during year	100,000		
13,393	*Less* Debited during year	65,822		
85,559			119,737	
	Dock Insurance Fund:			
349,691	As per last Balance Sheet	370,068		
26,945	Added during year	40,093		
6,568	*Less* Debited during year..	5,004		
370,068			405,157	
	Income Tax Act, 1945 – Allowances Account:			
214,342	As per last Balance Sheet	256,489		
62,478	Added during year	—		
20,331	*Less* Debited during year	30,218		
256,489			226,271	
	War Damage Payments Account:			
539,331	As per last Balance Sheet	477,268		
18,890	Added during year	5,000		
80,953	*Less* Debited during year	160,378		
477,268			321,890	
1,430,693			1,309,524	
7,000	**Future Taxation** including Equalization Account..		152,359	
1,437,693			1,461,883	
	Provision			
	Deferred Maintenance and Dredging Account:			
89,082	As per last Balance Sheet	24,752		
—	Added during year – Contribution	67,990		
64,330	*Less* Debited during year..	53,383		
24,752			39,359	
	Current Liabilities:			
46,848	Interest accrued on Loans	46,848		
	Contributory Sick Pay Scheme –			
6,176	Members' Credits	7,429		
312,944	Creditors and Credit Balances	385,393		
3,236	Taxation	44,164		
369,204			483,834	
1,831,649				1,985,076
£13,215,358				£13,966,563

1951	CAPITAL			
£		£	£	£
	Fixed Assets:			
12,043,492	Total Outlay as per Statement B (pages 8–9) ..	12,258,270		
785,400	*Less* Assets displaced and Intangible Capital Expenditure	884,425		
11,258,092	Net Fixed Assets at original cost		11,643,845	
—	**Compensation due from British Electricity Authority re Portishead Dock**		190,000	
112,866	**Investments at Cost** (page 15) .. .. .. (Mean market value £80,115)	112,866		
12,751	**Balance at Bank**	34,776		
125,617	Total Stock (Sinking Fund) Account		147,642	
£11,383,709				11,981,487
£	REVENUE			
864,046	**Investments at Cost** (page 15) .. .. (Mean market value £790,878)		867,460	
	Current Assets:			
72,704	Stores	103,657		
599,942	Debtors and Debit Balances (*Less* Reserve for Bad Debts)..	602,775		
20,000	Tax Reserve Certificates	—		
30,967	Balances at Bank and Cash in Hand	132,737		
723,613			839,169	
243,990	**Temporary Loan to Capital** (see *contra*)		278,447	
1,831,649				1,985,076
£13,215,358				£13,966,563

Note. – The balance of the provision for deferred maintenance and dredging is very considerably below the amount necessary to finance the work remaining to be done.

CURRENT LAW

Defective Bankruptcy Notice

A debtor was ordered to pay a sum of money to H. as liquidator of a company in voluntary liquidation, but failed to do so; a bankruptcy notice was accordingly served on him by H. in his own name, which was followed by the description 'liquidator of' the company, without showing that H. acted on behalf of the company. A petition was later based on the notice, presented by H. who again followed his name with description 'liquidator' of the company.

The Divisional Court in Bankruptcy held that the notice and petition were wrong in form. These were defects which could have misled the debtor and not such as could be rectified under Section 147 (1) of the Bankruptcy Act, 1914. They were accordingly bad and the proceedings ineffective (*Re A Debtor (No. 41 of 1951); ex parte the Debtor v. Hunter (Liquidator of Marvel Paper Products Limited) and Another.*) (*Law Times*, January 11th, 1952.)

Removal and Restoration of Company's Name

In 1950 the name of the appellant company in *Tymans Ltd v. Craven* (*Solicitors' Journal*, March 29th, 1952) was removed from the register of companies under Section 353 of the Act of 1948. The last day but one before it would have been too late, an application in the name of the company was made for an order that the respondent should grant a new lease. The respondent argued that on the date of the application the company did not exist, which point of view found favour with the county court judge. A few days earlier the Palatine Court had restored the company's name to the register under subsection (6) of Section 353.

The Master of the Rolls (Hodson, L.J., agreeing) held that the restoring order was effective and that the company was existent at the date of the application. Jenkins, L.J., dissented, saying that to give the subsection retrospective effect would automatically validate all acts and things done in the meantime without regard to the rights of other persons. Such a construction ought not to be adopted.

Conflict of Laws

A husband resident in the United Kingdom undertook by a deed executed in New Jersey to make payments to his wife, from whom he was divorced, resident in the United States. The payments were to be in United States dollars and, for the question as to what securities certain funds were to be invested in, the law of New York or of New Jersey was said to be incorporated in the deed. The payments fell in arrear and the wife sued the husband in England, an order being made for the payment of £6,000. £2,000 was paid in full, but the husband sought to deduct £2,754 from the balance in respect of income-tax on the £6,000.

Donovan, J., held this to be wrong. He said that the presumption that the deed was governed by the *lex loci contractus* was not displaced by the husband's being ordinarily resident in the United Kingdom and having no assets in the U.S.A. The deed was governed by New Jersey law and the husband could not deduct tax. (*Keiner v. Keiner.*) (*Law Times*, March 21st, 1952.)

Frustration of Contract

In 1938 two parties agreed respectively to sell and buy freehold land, but completion was delayed by the outbreak of war. After the war, the Middlesex County Council made a compulsory purchase order and notices to treat were served on both parties. The buyers contended that before the date of the service they were discharged from their contract.

Vaisey, J., held that the order placed an obligation on them, as they were to be regarded as the owners, subject to payment of the purchase money; that the order did not affect the vendors; and that the making of the order did not preclude the carrying out of the contract, which was thus enforceable. (*Hillingdon Estates Ltd v. Stonefield Estates Ltd.*) (*Law Journal*, April 11th, 1952.)

Incomplete Will

A testatrix made her will on a printed form but omitted to name an executor; she made bequests, however, to her brother and two sisters. Wynn-Parry, J., held nevertheless that she intended to make a testamentary disposition in favour of her brother and two sisters. As one sister had died the effect was to pass the estate to the brother and surviving sister as joint tenants. (*Re Stevens (decd.); Pateman v. James and Another.*) (*Law Times*, March 14th, 1952.)

Removal of Director

Article 68 of Table A of the Companies Act, 1929, provides for the appointment of a director as managing director, and for such appointment to be determined if he should cease to be a director or if the company in general meeting resolve accordingly.

In *Read v. Astoria Garage (Streatham) Ltd* (*Law Times*, April 18th, 1952) the plaintiff was the managing director, appointed at the first meeting of the board. In March 1949, the board decided to relieve him of his position and gave him two months' leave, at the end of which time they determined his employment, at the end of one month's notice. His salary was, however, paid for a further three months, when the board's action was approved at an extraordinary general meeting.

On the plaintiff's claim for damages for wrongful dismissal and for breach of contract, Harman, J., held that the appointment was properly determined under Article 68. There was no breach of contract in dismissing him without notice, as Article 68 provided for dismissal out of hand. The learned judge would have thought three months' notice sufficient, but in fact the plaintiff had had six months' salary without doing any work.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

World-wide Co-ordination for Accountants

SIR, – I was very pleased to read Mr Milne's letter in your issue of June 7th, as I had the pleasure of meeting Mr Milne in Adelaide recently.

I would like to endorse Mr Milne's suggestion that there should be greater co-ordination round the world between the accountants of all countries, if this can be organized.

During my recent visit to Australia I had the pleasure and privilege of meeting many members of our profession there, and I found it to be most stimulating and helpful to exchange views with them. Their outlook is dominated with the spirit of the pioneer.

Yours sincerely,
F. R. M. DE PAULA.

Wormley, near Godalming, Surrey.

Accounting in Relation to Changes in the Purchasing Power of Money: Recommendation XV

SIR, – Reading in your issue of May 31st No. XV of a series of recommendations on accounting principles, I note that the writers give four objections to the replacement cost method of dealing with fixed assets, in none of which can I see a great deal of substance.

The first objection is that the replacement cost cannot be estimated with any accuracy unless the particular asset is to be replaced within a short period. This objection appears to be based on the false assumption that in order to make proper provision for replacement, one must know when and at what price the asset is to be replaced. Surely all that is necessary is to know how much the cost of replacing the asset has increased during the accounting period. If one knows that the cost of replacing any asset has increased between the beginning and the end of the accounting period, say from £1,000 to £1,200, the amount necessary to place to the replacement reserve is £200. This provision may be made in one year or spread over a number of years.

If this method of arriving at the replacement reserve is consistently followed, the amount in the reserve, together with the usual wear and tear allowance and obsolescence allowance, will exactly meet the cost of replacement of the asset *whenever it wears out.*

Another objection raised to the replacement method of accounting is that improved methods and new inventions often render existing plant obsolete, with the result that when it is replaced, the new equipment is different in character from the old.

The answer to this is that exactly the same objections could be raised to the historical method of accounting. Under the historical method, the amount provided for replacement is the original cost, and no questions are asked as to how the asset is replaced or whether it is replaced at all. Is there any sound reason why under the replacement cost method of accounting any questions should be asked as to how the asset is replaced, or whether it is replaced at all? The writer cannot see any.

Another objection raised to the replacement method of computing profits is that two courses lie open when any asset is replaced, and objection is seen to both of them.

The objection to the first course mentioned appears rather trivial. Under this method, the same procedure is adopted when plant is scrapped, as under the historical method. The plant and machinery item on the balance sheet is decreased by the obsolescence allowance, and the proceeds of the sale of the scrap, and subsequently increased by the amount spent on new plant, whether the new plant is in replacement or otherwise. The replacement reserve remains unaffected. The question that appears to give some concern to the authors of the Recommendations is whether or not the growing replacement reserve is available for distribution. The question does not appear to be a crucial one.

A further stumbling block in the way of introducing the replacement method of accounting is seen (by the authors of the Recommendations) in the fact that prices do not always rise, and occasionally fall during the accounting period. Surely, in this event, the obvious course would be either to neglect the fall in prices, and set it off against any future rise, or alternatively to show an item in the profit and loss account providing for the reduced cost of replacement. The increase in profit produced by the introduction of this item would, of course, be reflected in an equal and corresponding reduction in the replacement reserve.

In the five paragraphs dealing with the replacement cost method of computing profits, I do not see any really valid objection to this method.

I am,
Yours faithfully,
JOHN P. BIBBY.

Liverpool, 3.

SIR, – I must confess to disappointment over the Institute's latest thoughts as expressed in it's recommendations on 'Accounting in relation to changes in the purchasing power of money'. In order to be brief, I confine this letter to two points.

Consider first of all paragraph 295[1] where it is argued that the replacement cost method is not capable of application in a period of falling prices.

[1] *The Accountant*, May 31st, 1952, page 580 (column 2).

The method was applied very successfully by many companies about twenty years ago, when they revalued their assets downwards, and thenceforth provided depreciation on the new values. The adjustment was made either by writing off a 'capital loss' against reserves or by reducing the share capital.

In paragraph 314[1] it is recommended that historical cost should continue to be the basis of annual accounts. I do not quarrel with that, but why does it follow that historical cost must be the basis on which profits are computed? And if the Institute insists on that concept, how can it expect its members to explain to those who know no better that the 'profit' shown by the accounts is not in fact a true profit at all (paragraph 315)?

It is recommended that the accounts should be supplemented with statements designed to show the true profit available for dividend. These statements will be based on principles which are not acceptable for incorporation in the accounts, yet shareholders, and others even less knowledgeable, are expected to accept them. Can they be blamed if they prefer the version of 'profits' shown in the audited accounts?

Yours faithfully,

London, EC3. CHAS. W. ASTON.

Tax Allowance: Semi-Permanent Buildings

SIR, – I wonder if any of your readers have found a solution to the following income-tax anomaly which I have run up against recently.

A firm, having rented certain land on an ordinary six months' tenancy, but with reasonable expectation of remaining undisturbed for a number of years, have taken the risk of erecting semi-permanent buildings thereon. The cost of these buildings is fairly extensive and the question of whether they represent pure capital or revenue expenditure has to be considered, and if they are capitalized the question of what income-tax allowance can be obtained arises. So far as I can ascertain at the moment, all that we can expect is the industrial buildings allowance of an initial 10 per cent and of 2 per cent thereafter.

If for any reason my clients have to vacate the property after a few years, it is clear that this taxation allowance is utterly inadequate and will involve a very substantial loss. In my view this type of expenditure could fairly be dealt with on a similar basis to agricultural buildings, i.e. a flat 10 per cent over ten years. It would appear that this basis of allowance for agricultural buildings was largely instituted because, in the main, buildings were being erected by a tenant on someone else's property.

This problem, in the particular case I have in mind, is a very serious one financially for the firm concerned, and I feel there should be some solution, though I cannot at the moment find it.

Yours faithfully,

J. M.

[1] *The Accountant*, May 31st, 1952, page 581, Recommendation (*a*).

Modern Internal Auditing

SIR, – Mr MacBeath's statement in his contribution (May 3rd issue) on the 'Trend of audit practice' that the chief accountant

> 'has an internal audit department responsible for detailed checking of routine transactions in accordance with an agreed programme of work which will be fixed by the chief accountant. . . .'

is not one likely to commend itself to accountants carrying out modern internal auditing.

Internal audit departments in the more progressive industrial and commercial undertakings have ceased to be responsible for detailed checking of routine transactions and have moved on to more constructive tasks.

It is not possible here to give a detailed account of their present functions but the evaluation of accounting systems and the ensuring of the adequacy of internal controls are now among the daily duties of internal audit departments.

It should also be pointed out that it is most unlikely that the work to be performed would be laid down by the chief accountant except in the very broadest sense. He might, for example, indicate that he wanted the work of the salaries section to be examined but he would make no attempt to lay down the manner in which the investigation was to be carried out. This freedom of approach is of the greatest importance.

I agree with Mr MacBeath that internal audit departments do relieve external auditors of some of the burden of detailed checking – but not for the reason given by him. Close liaison is maintained with the external auditors and, by agreement with them, to avoid duplicity of work, an internal audit department will accept responsibility for a certain amount of detailed checking in excess of their own requirements when carrying out an assignment. This is a sensible arrangement which cuts out the double examination of documents by two lots of people.

Yours faithfully,

A. M. SIM, C.A.

Assistant to Chief Internal Auditor,

BRITISH ELECTRICITY AUTHORITY.

London, W1.

Accountants' Bowling Association

SIR, – I shall be very pleased to hear from accountants who wish to join with me in organizing an Accountants' Bowling Association.

Representative games will be played, and all accountants who are bowlers will no doubt appreciate the facilities that can be provided by the Association.

Anyone who is interested should communicate with me stating the name of their club, position in rink, and any other details of interest to the selection committee.

Yours faithfully,

GEORGE R. DRYSDALE, F.A.C.C.A.

12 The Chase, Eastcote, Pinner, Middx.

Golf Club Profits: Tax Liability?

SIR, – The share capital of a golf club which is a limited company consists of both preference and ordinary shares, approximately 50 per cent of the club members being shareholders and approximately 75 per cent of the shareholders being club members.

No dividends have ever been paid or contemplated and there are no directors' fees.

If all club members became shareholders would the company be exempt from tax as a mutual club and if so how would bar profits and green fees be treated?

Is there any alternative to 'mutuality' by which the profits would fall outside the scope of Schedule D?

Yours faithfully,

M. A. S.

Auditors: Change in Partnership

SIR – Referring to the letter from 'C. A. R.' in your issue of May 3rd, the following experience may be of interest.

In 1950 the auditor of our company, Mr X. (practising as X. & Co), retired owing to ill-health, and shortly afterwards died. The practice was acquired by the two senior qualified clerks in the firm, who took legal opinion as to the steps to be taken by limited companies (to whom the firm acted as auditors) in order to regularize the appointment. As a result of this opinion the following paragraph was published in the next directors' report of our company:

'*Auditors*

'The directors record with great regret the death of the company's auditor, Mr X. (practising as X. & Co); he had retired from practice as an accountant on May 31st, 1950, and resigned his office of auditor of the company. To fill the vacancy the board appointed as auditors Messrs Y. and Z., who succeeded to Mr X.'s practice, which they are continuing under its existing name of X. & Co. They are eligible for re-appointment and under the provisions of the Companies Act, 1948, will continue as auditors.'

Yours faithfully,

F. S. S.

THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952

REGISTRATION BEGINS AT ROYAL FESTIVAL HALL

Among the first to register for the Congress at the Royal Festival Hall last Monday were Mr A. A. Fitzgerald, B.COM., F.I.C.A., F.C.A.A., and Mrs Fitzgerald of Melbourne, Australia. They are shown here being greeted on arrival by the Secretary of the Congress, Mr Alan S. MacIver, M.C., B.A., and the Chief Executive Officer, Brigadier S. O. Jones, O.B.E., M.C. (on the left of the picture).

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, June 4th, 1952, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, J. Blakey, W. G. Campbell, P. F. Carpenter, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, S. H. Gillett, M.C., P. F. Granger, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, K. A. E. Moore, P. Morgan-Jones, S. J. Pears, P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., A. D. Walker, T. Walton, Sir Nicholas Waterhouse, K.B.E., H. B. T. Wilde, Mr R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Election of President and Vice-President

Mr Thomas Buston Robson, M.B.E., M.A., F.C.A. (Price Waterhouse & Co, London) was elected President and Mr James Blakey, F.C.A. (Litton, Pownall, Blakey & Higson, Manchester) was elected Vice-President for the ensuing year.

Mr G. R. FREEMAN: Before I commence my very pleasurable duty and without trespassing too far on the preserves of those who will be speaking later on in these proceedings, I should like to express my heartiest congratulations on the splendid contribution you have made to the prestige of the profession during your year of office. (Cheers.)

Gentlemen, it is my high privilege to have the honour of submitting to you the name of our President for the ensuing year; with the International Congress on Accounting soon to be held and the many important matters which are likely to come before this Council during the next twelve months, it is essential that we should have as our President one whose name and reputation are well known and highly esteemed, not only in our Institute and in these islands but also throughout the whole commercial world. We are indeed fortunate to have such a man in the person of our Vice-President, Mr Thomas Buston Robson. In my more palmy days, before I became so entangled with the 'sere and yellow', I was proud to be associated in several professional matters with that genius of accountancy the late Sir Gilbert Garnsey, and now one has the added pride of being associated on this Council with Mr Robson, on whose shoulders the mantle of Garnsey seems to have settled in a most appropriate manner.

At this time last year, when proposing Mr Robson as our Vice-President, both Sir Harold Barton and Sir Russell Kettle set out something of his record in the profession, and it is hardly necessary for me to repeat all that was then said. In the eleven years during which Mr Robson has been a member of this Council he has ungrudgingly devoted his considerable ability and his concentrated efforts to the furtherance of the high standards of the Institute; and one can only feel that by giving up so much time and thought to that end, he may have experienced some difficulty in satisfying all the demands of his many important clients. We are very grateful to him for the zeal he displays in all he undertakes and it is always a pleasure to listen to the lucid, yet quiet and temperate manner in which he sets forth any problem with which he may be dealing. We are also grateful to Mrs Robson for her self-denial in allowing her husband to spend so much of his time on Institute matters; I may say that I learned something of this during the Conference at Torquay last autumn, through the fact that on two or three occasions Mrs Robson and I were companions at lunch or dinner. I trust that his year of office may not put too great a strain on his health and prevent the enjoyment of the amenities of home life.

I think it is a fact that Mr Robson will be one of the youngest Presidents we have had for a good many years, and I hope that after his term of office has expired he may continue as a member of the Council until he reaches the position I now have the honour to hold, namely, that of senior serving Past-President.

It is with full confidence that I can assure Mr Robson of the high regard, esteem and affection which all his colleagues on the Council have for him and it affords me the keenest satisfaction to move that the President of the Council and of the Institute for the ensuing year be Mr Thomas Buston Robson. (Applause.)

Sir NICHOLAS WATERHOUSE: I am very pleased that it falls to me to second the resolution just put forward. There is not much I can add to what Mr Freeman so eloquently said as to the suitability of the candidate for the Presidency of our Institute; but I am glad of this opportunity of giving one or two further remarks about him. You all know T. B. Robson so well, and you all appreciate the value of his great services not only to the Institute but to the profession in general. (Cheers.)

Perhaps, however, I being in constant touch with him as one of his partners, may know him even better than you do. I must say I have never met anyone so helpful and so willing to give of his best in dealing with any problem great or small that may be brought before him, however preoccupied he may be with his own matters, of perhaps far greater importance. . . . And then as a clear-thinking man you cannot beat him. Have we not seen him on many occasions, when discussions in this chamber or at some committee meeting have become rather at loose ends, take out a slip of paper and speedily draft out some resolution or clause that has satisfied all points of view and given offence to none. (Applause.)

When those qualities are combined with a very likeable, and I might say lovable personality, I feel quite confident that he is just the man to preside over us and shoulder all the burdens attached to Presidents of our Institute.

Before sitting down I should like also to mention Mrs Robson, who is known to many of you. The President's wife, even though not qualified as a chartered accountant, may also be quite an asset to our Institute, and I know of no one more suitable to assist her husband on the social side of his activities than the most charming and friendly Mrs Robson. (Cheers.) She is considerate to all and has the happy knack of making everyone feel at ease, whether he be the chief official guest at some function, or one of the humblest articled clerks. Gentlemen, I have very much pleasure in seconding the resolution that Mr Robson be elected President for the coming year. (Applause.)

THE PRESIDENT: I feel that there is no need for me to put this resolution to the meeting. Are you all agreed?

(Carried by acclamation.)

Mr Robson, on behalf of this Council I offer our warmest congratulations on your election as President of our Institute, and sincerely wish, in investing you with this symbol of office, that you may enjoy the best of health during a very successful year.

(Mr Boyce retired, and Mr Robson took the chair.)

THE CHAIRMAN: This is a moment of great emotion and I hope you will forgive my inability to express thanks adequately to those who have proposed that I should occupy the presidential chair in this International Congress year and to you who have approved their proposal.

Eleven years have elapsed since I was invited to become a member of the Council and found myself welcomed with that warmth and friendliness which characterize the Council's reception of every new member. At the time I had little appreciation of what acceptance of the invitation would imply. Had I then realized all that it was going to involve in the shape of demands upon the time and energies of members, I might well have paused before accepting.

I am glad indeed that there was no such hesitation, for the eleven years have been a period of growing interest to myself in the work of the Council and its committees, of growing activity on the part of the Council in the assistance and advice it has given to members of the Institute and in the leadership which it has given on accounting matters, of growing friendships within its membership with men of very diverse gifts and characteristics, of growing respect for the sincerity and self-sacrificing devotion of the leaders of the profession with whom I have been brought into contact.

It would be invidious to mention names, for all have been uniformly kind and encouraging. Many are the examples I have seen of how a president or past-president of this great Institute has played his part in its affairs or represented it in the larger world outside. The best tribute I can pay them is to strive to the best of my ability to apply the lessons I have learned in watching the excellence of their performance. It is good to know that in making this effort I can turn to every member of the Council and to Mr MacIver and all the officers of the Institute for the advice which I shall undoubtedly need.

I had hoped to learn a great deal during the past year and have certainly done so, but not through the calls which my immediate predecessor has made upon me. It might have been expected that, living as he does in Yorkshire, he would have wanted the vice-president to take his place on numerous occasions. But Charles Boyce was not made like that; having put his hand to the presidential plough, he could not pause from his task until every furrow was made true and straight in the field which he has completed today. I have learned much from observing his technique and derived great benefit from his kindness and example; in the year that has now commenced it will be a constant inspiration to have seen from the close observation point I have occupied during the past twelve months the way in which a president should perform his duties.

And then there are the proposer and seconder of the resolution, Mr George Freeman and my partner, Sir Nicholas Waterhouse. As our Senior Past-President (he was occupying this chair when I had been a member of the Institute for only three years), Mr Freeman has played a prominent and honoured part in every major activity of the Institute for very many years and in many of its minor and humdrum activities too. He takes a fatherly interest in us all and has evinced in every possible way his deep and abiding concern for the Institute's welfare. (Cheers.) I am, as I always have been, most grateful for his encouragement.

As for Sir Nicholas Waterhouse; I know far too much about him to talk freely today. (Laughter.) To him and the other partners in my firm I pay thanks that they have made it possible for me to accept this great office. You know the constant pretence of Sir Nicholas that he knows nothing about anything except, perhaps, a little about stamps – and how foolish is anyone who accepts that estimate of the man. You know his unique capacity for hitting the nail on the head with a few amusing and at first sight irrelevant words. For me, however, he is not only himself; he symbolizes also those other men of outstanding character and ability who have come through my own firm in his and earlier generations to serve the Institute and our great profession. (Cheers.) It is, therefore, a special pleasure to me that Sir Nicholas and Mr Freeman should have been among those who hand on the torch today. I receive it with pride and with, at the same time, a humble sense of the responsibility you have laid upon me to transfer it undimmed in due time to my own successor.

Mr Freeman and Sir Nicholas have mentioned my wife, and I thank them on her behalf as well as my own for their kind remarks about her. They have indicated that, in the year which starts today, she and my family will be subject to what the economists call the law of diminishing returns by myself to the home base. (Laughter.) They are already becoming aware of this, as I have been asked by Mr MacIver to reserve dates which are many months ahead for possible functions connected with the Institute; but I am glad to say that in spite of this they are ready to play their part in giving effect to the decision which you have just made. I am most grateful to my wife for her forbearance on this, as on many other occasions, where professional matters are concerned.

This is a year of great importance for our Institute; my hope and prayer are that it will continue during the year and, indeed, in all the years that follow, to give that leadership in accounting matters which has come to be regarded as the Institute's right and duty. I am sure that in both the international and the national fields we who are members of its Council will do our best to serve the profession and the public in every possible way and I thank you all from the bottom of my heart for the trust you have indicated and the honour you have done me by electing me as your president. (Applause.)

Sir HAROLD BARTON: I rise to propose the election of a successor to Mr Robson as Vice-President of the Institute for the ensuring year, and the name I submit for the office is that of a Lancastrian – Mr James Blakey. (Cheers.)

Mr Blakey has a twofold right to be termed a 'Mancunian' since he is not only an inhabitant of the City of Manchester but also a former member of the Manchester Grammar School. As you know, he is the senior partner of Messrs Litton, Pownall, Blakey and Higson – a firm which it is interesting to note was founded in 1864 by the late William Butcher. He was articled to his late father in 1908, being admitted a member of the Institute five years later and becoming a fellow in 1922. He has been a member of the Committee of the Manchester Society of Chartered Accountants since 1921, of which he was hon. secretary for six years and its president for the two years 1933–1934. Many of you, I am sure, will recall the efficient and delightful way he carried out his responsibilities as Chairman of the Autumnal Conference held in Manchester in October of the latter year.

He was elected to this Council in 1937, thus following in the footsteps of his late partner, T. G. Litton, who was a member of it from 1906 to 1921. I would remind you that he has been a member of the Applications Committee since 1938 and its chairman since 1950 – also a member of the Investigation Committee since 1943, of which he became Chairman in 1949, when he succeeded Mr Garton Ash on the latter's election as Vice-President; in addition, he is a member of the General Purposes and District Societies Committees. But to most of the present members of the Council Mr Blakey will be known best as chairman of the first two mentioned committees. Should he be elected as Vice-President today, we shall miss that touch of humour with which, when the Council found itself pressed for time, he disposed of the reports of the Applications Committee with such breath-taking speed. (Laughter.)

The work of the Investigation Committee is especially arduous and, as its chairman, Mr Blakey has not spared himself. He has not only carried out his duties with marked ability, but has shown great discernment and a sound judgment in safeguarding the Institute's high standard of right conduct; moreover, in presenting the committee's reports to the Council, he has discharged this responsibility with lucidity and obvious sincerity of purpose. (Hear, hear.) Indeed, in all that Mr Blakey has done, he has shown the

qualities that fit him for undertaking the responsibilities of Vice-President.

This brief outline of some of Mr Blakey's activities and attainments would be incomplete without stating that over twenty years ago he was appointed as an additional Commissioner of Income Tax for the Bucklow East Division of Chester, and in 1934 he became one of the General Commissioners for that Division, of which he is now chairman.

Like most of us, Mr Blakey has little time for relaxation from his professional duties, but from what I know of his recreations, they are of a quite harmless nature including, as I believe they do, such activities as ship modelling and billiards. (Laughter.)

I have only recently learned that Mr Blakey is the founder of a somewhat mysterious but select club known as the T.B.M.R.S. On instituting inquiries, I am credibly informed that these letters stand for 'Tired Business Men's Recreation Society'. (Laughter.) It would perhaps be unwise to seek further information as to the precise activities of this body lest they should attract the attention of the Investigation Committee. (Laughter.)

As Sir Harold Howitt is to second the proposal, I leave him to make good any omissions on my part; accordingly, I now have much pleasure in formally moving that Mr James Blakey be and he is hereby elected Vice-President of the Institute for the ensuing year. (Applause.)

Sir Harold Howitt: Mr President and gentlemen, Sir Harold Barton has said he would leave to me the task of making good any omissions on his part. I seem to remember, two years ago, when he was proposing the election of Mr Boyce as Vice-President, he said then: 'When a Yorkshireman proposes a brother Yorkshireman, what is left to say?' I really think today that if a Yorkshireman proposes a Lancastrian it is all the more applicable. I have great pleasure in seconding this proposal; I am sure you will find it a pleasure to have him as a member of this Council. (Cheers.) It will also be a great pleasure to Mr Blakey's native city, which is Manchester, and I am sure that it will have the approval of the whole body of members of this Institute. Following a remark the new President made just now about Sir Nicholas Waterhouse knowing nothing about anything, I am reminded that one definition of a Yorkshireman is 'one who knows something about everything, and everything about something', and I think I may say that when Mr Blakey joins in our deliberations he does know something about everything, and in one matter which Sir Harold Barton referred to he is supreme. I am sure we are extremely grateful to him for the way in which he has relieved us of some of the responsibilities attached to looking after the disciplinary problems of the Institute – Mr Blakey has a rare sense of humour and has a way with him. I can say that not only does he look after the disclipline of our members, but on occasions he has needed to look after the discipline of the Council! We have on many occasions asked Mr Blakey to take some report back and then when he does so it comes back in exactly the same form. I have very great pleasure, Mr President, in seconding this resolution. (Applause.)

The President: That motion, gentlemen, is carried by acclamation. Mr Blakey, I congratulate you on your election to this chair and I hope you will have as much pleasure in wearing the badge I am about to put on you, as I have had during the past year. (Applause.)

Mr James Blakey: As you will have gleaned, I am a fairly simple type of person, and I do think and know that those who have sat in this position before me will sympathise with what they know is passing through my mind on this occasion. I am, therefore, going to content myself by sincerely and simply thanking the proposer and seconder for all the kind remarks they have made about me, and to say that I shall do my utmost to justify the confidence you have placed in me. If I had any thought for the Council at this moment, it would be this; that at the end of my year of office, may I have given you as little trouble and anxiety as if my cost coincided with my replacement value. (Laughter.) When I was invited a short time ago to allow my name to go forward, I admit quite unashamedly to a certain fear; but there were three factors that caused me to agree to it – all important in their own way. The first is that I feel sure than in Mr Robson as President I shall have someone whom I could certainly work with. (Cheers.) My other reason is this, that it does honour to the provinces in general, and particularly to the Manchester area and its district society; and I felt that if I were to decline nomination I should be letting down the members of the Manchester Society who in 1937 nominated me for service on this Council. The third reason was this: that in the fifteen years I have served on this Council I have made the greatest of friends, and I have formed friendships that will endure as long as I live; and whilst the Council is critical, and rightly so, that criticism is to help. Mr President, whilst adding my personal congratulations on the honour you have achieved, may I say that I consider it my primary duty to support you in every way I can, and ease the onerous burden you will have during the year. And finally, gentlemen, may I take this opportunity as Chairman of the Applications and Investigation Committees of thanking the vice-chairmen and members of those committees for their unfailing loyalty to me and for the ready assistance I have had from them all. In all sincerity, gentlemen, I thank you. (*Applause.*)

Mr Shepherd: I am sure that any member of the Council would be pleased to undertake the very pleasurable duty which falls to me today, and that is to propose a very hearty vote of thanks to Mr Boyce, our retiring President. (Applause.) A year ago, when Mr Boyce was elected President, we hoped and anticipated that he would make a good President; our expectations have been amply and fully fulfilled.

Mr Boyce has a definite personality and he has placed all his personal qualities at the service of the Institute during the past year. He has been very generous and not spared himself in any way. He has had a very heavy year of office, and I believe I am correct in saying that he has visited every one of the fourteen district societies. He attended the whole of the Summer Course at Oxford in September last, and of course he had the chairmanship of the autumnal meeting at Torquay in October; in both of these he showed himself a very excellent President. He has attended dozens of functions and professional business meetings connected with this Institute, and of course the regular Council meetings and the annual meeting. In addition he has done all the routine work that falls to a President to undertake – which many members of the Council know nothing about. From the number of speeches he has made up and down the country, he has shown, it is evident, real common sense and well-balanced judgment in making statements to district societies and to students; he is a very tactful, patient and considerate person in every way and very human and accessible. Living as he does in Yorkshire has meant many journeys to London for perhaps very short meetings – a meeting of two hours here may mean two days from home for him. We all owe him a debt for what he has done. Finally, I should feel very ungrateful if I did not make special reference to Mrs Boyce, her grace and charm were shown particularly, if I may say so, during the Torquay Autumnal Meeting. Everybody present was delighted with the splendid way in which she assisted her husband. I have the utmost pleasure in proposing a very hearty vote of thanks to Mr Boyce. (Applause.)

Sir Russell Kettle: Mr Boyce can lay down the cares of office with the assurance of his colleagues on the Council that he has worthily upheld the prestige and dignity of the Institute. We all admired his courage in undertaking the Presidency at an age when he might well have asked to be excused from complying with our wishes. We appreciate the weight of the burden which he has borne, involving, as it did, the long hours of travelling and absence from home inseparable from the duties of a president from the provinces. He has endeared himself to a vast body of members by his

unfailing good humour and cheerfulness. We are grateful to him and, may I add, to Mrs Boyce, who has sustained and encouraged him in his heavy task. Like other past-presidents, his name will be perpetuated on the column in the Oak Hall – in Mr Boyce's case on the floor level, if I remember rightly – and it will be perpetrated in the entrance hall of the Institute, chiselled, but almost unreadable without the aid of a torch, on that monstrosity of discoloured marble which our forebears erected, presumably to avoid the risk of presidents being brought before the Investigation Committee for advertising!

Mr President, I second the resolution with pleasure. (Applause.)

Mr BOYCE: As one grows older time seems to pass more and more rapidly, and I can scarcely believe that it is two years since you did me the honour of electing me your Vice-President. My year as Vice-President seemed to pass quickly, but the past year, as President, has simply flown.

I am deeply grateful to Mr Shepherd and to Sir Russell Kettle for the charming and friendly way in which they have proposed and seconded this vote of thanks. I am sure I do not deserve one-half of the nice things they have said about me, and that they have been far too kind. I do thank them most sincerely.

Even today I sometimes find it difficult to realize that for the past twelve months I have held the honourable office of President of the Institute and almost have to pinch myself to make sure that it is not a dream. On the whole, it has been a very pleasant dream, and, in spite of initial trepidation, I have enjoyed my year of office; I shall look back on it as *the* year of my life. Not the least of this enjoyment has been derived from my visits to the district societies, where I have met many old friends and have made many new ones. I have been quite overwhelmed by the generous hospitality which has been showered on me wherever I have gone and I have been much impressed by the enthusiasm for the well-being of the Institute in all parts of the country. Further evidence of this enthusiasm was forthcoming at the summer course at Oxford and at the autumnal meeting at Torquay, and I would like to say to those who were responsible for the organization of those events how grateful I am to them for the ready help they gave to me as the presiding officer. I came away from Oxford and from Torquay with the firm conviction that both the summer course and the autumnal meeting are of inestimable value to our members and that they must continue as permanent features of the Institute's activities.

Were it not for the help and good counsel which the President receives from many quarters, his life, like that of the late W. S. Gilbert's policeman, would not be a happy one.

In times of stress you, sir, have always answered my S O S so willingly that I ceased to fear any problem, knowing as I did that I had such a wise counsellor at hand to come to my aid. And the same applies to the past-presidents and all the other members of this Council. I thank you all for your helpfulness and tolerance.

The assistance given to the President by the officers and staff is beyond all praise. (Cheers.) Mr MacIver has been a tower of strength and I am more than grateful to him for his good advice and for keeping me on the right lines in the matter of procedure. I have lost count of the number of times he has had to listen to my rambling after-dinner speeches; but to his credit he has never complained and has always come up smiling. (Laughter.)

My calls upon Mr Loveday and Mr Wilkinson have been many, but, in spite of being overwhelmed with work entrusted to them by the committees, they have given me every possible assistance to lighten my task. The same can be said of the other members of the staff, and to all I offer my grateful thanks and would say what a pleasure it has been to work with them.

The office of President, and more particularly a provincial President, is to all intent a full-time job and it would have been quite impossible for me to undertake it had it not been for the self-denial of my partners. My attendances at the office in Bradford have been limited and when I have been there my time has been mainly devoted to Institute matters. They have never complained and my thanks are due to them for making it possible for me to carry out my duties as President.

And above all there is one other who, by her patience and care for my physical fitness, has encouraged me in my work, namely my wife. There have been no complaints of my frequent absences from home, of absent-mindedness during the evening when I have been cudgelling my brain for something new to say at a district society dinner, nor any suggestion of a petition for divorce on the grounds of desertion. She has always been ready and willing to accompany me to any functions to which ladies have been invited and on these occasions has been a real helpmate – particularly so at Torquay where her duties as the President's wife were very exacting.

Gentlemen, it has been a great honour to be your President, and I am proud to have been able to serve the Institute. This I have done to the best of my ability with the one object that the high traditions of integrity and personal service handed down by my predecessors must at all costs be maintained and that the Institute must continue to take the lead in all matters affecting the accountancy profession.

Gentlemen, I thank you. (Applause.)

Appointments to Committees

The following committees were appointed for the year 1952–53.

President and Vice-President ex-officio members of all Committees other than the Disciplinary and Investigation Committees

Applications

T. A. H. Baynes, T. Fleming Birch, J. Blakey, C. W. Boyce, S. H. Gillett, P. F. Granger, K. A. E. Moore, P. Morgan-Jones, L. W. Robson, G. F. Saunders, T. A. L. Thompson, G. L. C. Touche, R. P. Winter.

Disciplinary

W. L. Barrows, Sir H. M. Barton, B. H. Binder, T. Fleming Birch, W. G. Campbell, P. F. Carpenter, A. S. H. Dicker, S. H. Gillett, G. D. Shepherd, C. M. Strachan, A. D. Walker, Sir N. E. Waterhouse.

District Societies

T. Fleming Birch, J. Blakey, P. F. Carpenter, S. W. Cornwell, A. S. H. Dicker, P. F. Granger, P. Morgan-Jones, L. W. Robson, G. D. Shepherd, K. G. Shuttleworth, C. M. Strachan, E. D. Taylor, A. D. Walker, Sir N. E. Waterhouse, H. B. T. Wilde, R. P. Winter.

Examination

W. L. Barrows, T. A. H. Baynes, W. G. Campbell, P. F. Carpenter, A. S. H. Dicker, P. F. Granger, D. V. House, W. H. Lawson, P. M. Rees, B. Smallpeice, E. E. Spicer, E. G. Turner.

Finance

T. A. H. Baynes, A. S. H. Dicker, S. H. Gillett, W. R. MacGregor, J. S. Mackenzie, K. A. E. Moore, L. W. Robson, K. G. Shuttleworth, B. Smallpeice, E. D. Taylor, T. A. L. Thompson, G. L. C. Touche, E. G. Turner, A. D. Walker, H. B. T. Wilde.

General Purposes

H. Garton Ash, W. L. Barrows, Sir H. M. Barton, C. W. Boyce, W. S. Carrington, S. W. Cornwell, D. V. House, H. Crewdson Howard, Sir H. G. Howitt, Sir R. Kettle, K. A. E. Moore, P. M. Rees, T. B. Robson, G. D. Shepherd, C. M. Strachan, T. Walton, and the Chairman of the Finance, Investigation and Parliamentary and Law Committees.

Investigation

H. Garton Ash, C. W. Boyce, G. R. Freeman, D. V. House, H. Crewdson Howard, Sir R. Kettle, W. R. MacGregor, P. M. Rees.

Library

T. A. H. Baynes, P. F. Carpenter, J. S. Mackenzie, P. Morgan-Jones, L. W. Robson, E. E. Spicer, A. D. Walker, H. B. T. Wilde, R. P. Winter.

Parliamentary and Law

W. L. Barrows, B. H. Binder, T. Fleming Birch, W. G. Campbell, W. S. Carrington, Sir H. G. Howitt, Sir R. Kettle, W. H. Lawson, S. J. Pears, C. U. Peat, T. B. Robson, G. F. Saunders, C. M. Strachan, T. A. L. Thompson, G. L. C. Touche.

Remuneration of Financial Advisers to Companies

The Council decided to publish the following statement:

Remuneration of Financial Advisers to Companies

The Council has had under consideration the question of the basis of remuneration of members who, as practising accountants, may act as financial advisers to companies.

In the opinion of the Council, it is undesirable for the remuneration of a member for such services to be based on a percentage of profits of the company.

Exemption from the Preliminary Examination

One application under bye-law 63 (*a*) for exemption from the Preliminary examination was acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (*b*) for exemption from the Intermediate examination was acceded to.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

One application under bye-law 63 (*c*) for a reduction in the period of service under articles was acceded to.

Final Examination

One application under bye-law 63 (*e*) for permission to sit an earlier Final examination was acceded to.

Pension Fund for Staff in Accountants' Offices

It was reported that, following the resolution passed at the annual meeting, a sub-committee had been appointed with the following terms of reference:

(*a*) To investigate the possibility of setting up a pension trust fund for the purposes of creating a contributory pension scheme covering all employees of those holding a practising certificate from the Institute.

(*b*) To advise on the best methods whereby such a trust fund can become actuarially sound in the shortest possible period.

Annual Meeting of District Societies and of the Council

It was decided that the next annual meeting of representatives of the district societies and of the Council be held on Tuesday, November 11th, 1952.

Articled Clerk in Industrial Organization

One application under bye-law 58 (*c*) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following thirty associates who have commenced to practise:

Bainbridge, George Ernest; 1937, A.C.A.; (Blackburns, Robson, Coates & Co), Commerce House, Cheapside, Bradford, and at Leeds, London and Manchester.

Bayliss, Philip Alfred; 1948, A.C.A.; (J. H. Hugill & Co), and (Tingle, Comber & Co), Warnford Court, Throgmorton Street, London, EC2; also at Waltham Cross (Tingle, Comber & Co).

Brown, Roland; 1949, A.C.A.; 39 Melville Street, Burnley.

Cade, Cecil Frederick; 1932, A.C.A.; Merly House, Wimborne, Dorset.

Catchesides, Albert William; 1951, A.C.A.; (A. W. Catchesides & Co), 7 Eliot Hill, Lewisham, London, SE13.

Crystal, Arnold Hyman; 1951, A.C.A.; 431 Lytham Road, Blackpool, S.S.

Delderfield, Roy Charles; 1952, A.C.A.; 4 Marlborough Avenue, Southgate, London, N14.

Freeman, John Albert; 1948, A.C.A.; (Horsfield & Smith), Belgrave Place, 8 Manchester Road, Bury, and at Manchester.

Fuller, Kenneth James; 1952, A.C.A.; (H. S. Baker & Co), Bletchley Road, Bletchley, and at London.

Gaskell, James Harold Edward; 1952, A.C.A.; 228 Leyland Road, Penwortham, Preston.

Glover, George Thornton; 1936, A.C.A.; Spring Grove House, Roker Lane, Pudsey, near Leeds.

Gregory, John Richard; 1949, A.C.A.; (*Stephenson, Smart & Co), 69 Wrawby Street, Brigg, Lincs, and at Scunthorpe.

Hodgson, Frederick John Warmingham; 1950, A.C.A.; (Nevill, Hovey, Smith & Co), 44 Thorn Park, Plymouth, and at Exeter, Launceston and Okehampton.

Jacobs, Adrian; 1952, A.C.A.; (Elliot N. Jacobs & Co), 97 Jermyn Street, London, SW1.

Jeffries, Francis David; 1949, A.C.A.; (Herbert Pepper & Rudland), National Provincial Chambers, Park Street, Walsall.

Jones, Clifford Emlyn; 1927, A.C.A.; (*Stanley Swales & C. Emlyn Jones), Lloyds Bank Chambers, 42 Commercial Street, Newport, Mon.

Jones, William Llystyn; 1949, A.C.A.; (Fogg, Tatlow, Thomas & Jones), 22 Trinity Square, Llandudno, and at Bangor and Llangefni.

Mann, Stanley Victor; 1951, A.C.A.; (Leech, Evans & Co), Darlaston House, Warwick Road, Coventry, and at London.

Midgley, Philip Dixon; 1947, A.C.A.; (Coe & Midgley), Martins Bank Chambers, Otley Street, Skipton, Yorks.

Nankivell, Fernley; 1950, A.C.A.; (Hooker, Nankivell & Co), 13A Bank Street, Newton Abbot.

Partridge, Izett Helen; 1952, A.C.A.; (Eric Taylor & Co), 23, Russell Street, Reading.

Peterman, Leslie; 1952, A.C.A.; 32 Prince George Road, London, N16.

Pinder, Frank Norris; 1937, A.C.A.; Great Peter House, 2 Lord North Street, Westminster, London, SW1.

Proctor, Leslie Stewart; 1922, A.C.A.; 2 Treherne Road, Newcastle upon Tyne, 2.

Prue, Norman John; 1951, A.C.A.; (*Eccleston, Prue & Co), 106 Bryn Arden Road, South Yardley, Birmingham, and at Stourbridge.

Rutter, Joseph Morley; 1951, A.C.A.; 31 Bell Street, Shaftesbury, Dorset.

Shadrack, Ronold Ernest; 1939, A.C.A.; (Ronold E. Shadrack & Co), 86 Overton Drive, Wanstead, Essex.

Simpkins, John George; 1943, A.C.A.; (Nevill, Hovey, Smith & Co), 62 High Street, Exeter, and at Launceston, Okehampton and Plymouth.

Williams, George Leslie; 1948, A.C.A.; (Eric C. Sage & Co), 127 High Street, Rhyl.

Wilson, Michael Denton; 1951, A.C.A.; (Spenser, Wilson & Co), Equitable Chambers, Central Street, Halifax.

(2) That sixteen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

A list of those who complete their fellowship or membership before June 17th will appear in *The Accountant* on June 21st.

Registration of Articles

The Secretary reported that sixty-eight articles of clerkship were registered during the month of May as compared with eighty-six in the previous May.

Resignations

The Secretary reported the resignation of:

Mr Griffith John Davies, A.C.A., Nottingham.
,, Harold Bertram Newell, A.C.A., Leicester.
,, Percy William Thompson, M.A., A.C.A., Tunbridge Wells.

The late Mr James Gibson Harris, F.C.A.

The Council received with very great regret the Secretary's report of the death of Mr James Gibson Harris, F.C.A., London, a member of the Council from 1920 to 1951 and a former chairman of the Finance Committee.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr William Archibald Badger Briggs, A.C.A., London.
,, David Graeme Burrell, A.C.A., Birmingham.
,, Richard Percival Heywood, A.C.A., Liverpool.
,, Claud Charles Inwood, A.C.A., Worthing.
,, Frederick Stanley Morris, F.C.A., Liverpool.
,, Ronald John Shepherd, A.C.A., Brighton.
,, Gerald Youatt, F.C.A., London.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

REPORT OF THE COMMITTEE

The report of the Committee of the London and District Society of Chartered Accountants for the year ended March 31st, 1952, to be presented at the tenth annual general meeting of the Society on Thursday, June 26th, 1952, in the Oak Hall of the Institute, Moorgate Place, London, EC2, is as follows.

Committee

Mr G. D. F. Dillon, B.A., *Chairman*, Mr D. A. Clarke, LL.B., *Vice-Chairman*, Messrs G. R. Appleyard, H. A. Benson, C.B.E., P. R. Bradshaw, A. H. Cheney, J. Clayton, E. H. Davison, W. G. Densem, L. R. Elcombe, W. E. L. Fletcher, S. H. Gillett, M.C., A. N. Hollis, D.F.C., J. H. Mann, M.B.E., M.A., R. P. Matthews, B.COM., J. Mottram, B.A., D. T. H. Nicholson, M.B.E., H. Norris, W. E. Parker, C.B.E., A. P. Ravenhill, W. Robinson, L. W. Robson, G. L. C. Touche, B.A., Miss Ethel Watts, B.A., Messrs E. F. G. Whinney, M.A., E. K. Wright, M.A., and Mr J. W. G. Cocke, T.D., M.A., *Hon. Secretary*.

Report for the Year ended March 31st, 1952

Membership

The membership of the Society on March 31st, 1952, was 2,377 as against 2,255 last year, being a net increase of 122.

All members of the Institute registered as residing, practising, or in service in the area of the Society are entitled to be admitted to membership without payment, on application to the Secretary, and it is not intended to debar those outside the area who wish to join the Society.

Activities of the Committee

(a) *Addresses to the Society.* – During the year the following meetings have been held:

October 23rd, 1951: Address by Mr Frederick Grant, Q.C., on 'Points arising on the Finance Act, 1951'.

November 28th, 1951: Address by Mr J. M. Sandford Smith, A.C.A., F.I.I.A., on 'Accounting by electronics: some new responsibilities of auditors and accountants'.

January 8th, 1952: Address by Mr Noel Hall on 'Training for management'.

There was also a series of addresses followed by discussions, on the subject of 'Prospectuses':

On November 13th, 1951, by Mr F. R. Althaus, a vice-chairman of the London Stock Exchange, from the point of view of the Stock Exchange.

On December 19th, 1951, by Sir Sam H. Brown, giving the lawyer's approach.

On January 29th, 1952, by Mr H. A. Benson, C.B.E., F.C.A., giving the accountant's approach.

On March 11th, 1952, by Mr Lewis G. Whyte, F.F.A., giving the institutional investor's approach.

During the redecoration of the Oak Hall at the Institute, meetings were held in the Hall of the Chartered Insurance Institute.

April 21st, 1952: Following a luncheon at the Connaught Rooms, Sir John Woods, G.C.B., M.V.O., gave an address entitled 'Accountancy from the outside by an outsider'.

The Committee desires to express its appreciation and gratitude to all these gentlemen for their addresses.

An invitation to these meetings was extended to members of the Association of Scottish Chartered Accountants in London.

(b) *Elections to the Council.* – The Committee considered the names of the London members retiring by rotation from the Council at the 1952 annual general meeting, who offered themselves for re-election, and decided not to submit any other nominations.

(c) *Dinner to the President.* – The Committee of the Society, together with London members of the Council, entertained the President and Vice-President of the Institute and the Presidents of the District Societies to an informal dinner on May 7th, 1952.

Activities of Sub-committees

(a) *Regional Taxation and Research Committee*

During the year there were eleven meetings of the London Regional Taxation and Research Committee under the chairmanship of Mr R. P. Matthews. The Committee had a busy year considering and commenting on memoranda drafted by the main Taxation and Research Committee under numerous Headings for the Royal Commission on Taxation of Profits and Income, besides considering current legislation and other matters referred to it by the main Taxation and Research Committee or by members, on which memoranda were forwarded to the main committee.

(b) *Joint Committee with the Students' Society*

Two meetings have been held with representatives of the Chartered Accountant Students' Society of London at which questions of mutual interest were discussed.

(c) *Advice to Members and Articled Clerks*

A number of applications for advice have been received from members who have been given opportunities of consulting members of the committee.

Vacancies on the Committee

The following members retire in conformity with Rule 7 and being eligible and willing to serve are deemed to be nominated for re-election.

In Practice – Three Vacancies: Messrs H. A. Benson, G. D. F. Dillon and R. P. Matthews.

Employed in the Service of a Practising Accountant – One Vacancy: Mr W. E. L. Fletcher.

Not in either of the foregoing Categories – Two Vacancies: Messrs J. Clayton and W. Robinson.

General

MEETING OF DISTRICT SOCIETIES AND THE COUNCIL

A meeting of representatives of District Societies and members of the Council, with the President of the Institute in the chair, was held at the Institute on November 8th, 1951, when an exchange of views took place on matters of general interest to members of the various societies.

DISCUSSION GROUPS

The Committee recently decided to make inquiries in order to ascertain whether members would be interested in the formation of Discussion Groups and, if so, what subjects members thought suitable for discussion. A circular was accordingly sent out to all members on January 24th, 1952, and over 150 replies from members were received. As there was evidently considerable interest in the matter the Committee appointed a Sub-Committee to consider how the Committee could best assist in initiating Discussion Groups during the coming autumn, and this Sub-Committee is getting in touch with a number of members who it is hoped will be willing to act in the capacity of conveners etc.

SUGGESTIONS BY MEMBERS

The committee welcomes suggestions for consideration and discussion on any matters of interest to members.

For and on behalf of the Committee,

G. D. F. DILLON,
Chairman.

May 28th, 1952.

NOTES AND NOTICES

Personal

MESSRS WHEAWILL & SUDWORTH, Chartered Accountants, of Martins Bank Chambers, Greek Street, Leeds, 1, and of Huddersfield and London, announce that Mr R. F. E. ASQUITH, A.C.A., who has been a senior member of their staff for a number of years, has been taken into partnership at their Leeds office as from June 1st, 1952. They also announce that as from June 4th, 1952, they have acquired the practice of Messrs WILLIAM CLAYTON & Co, of 21 Wade Lane, Leeds, formerly carried on by the late Mr WILLIAM CLAYTON, F.S.A.A. Until suitable premises can be secured for the accommodation of the combined staff, the offices in Wade Lane will be retained in addition to the present offices in Greek Street.

MESSRS BUTLER, VINEY & CHILDS, Chartered Accountants, of 60 St Paul's Churchyard, London, EC4, announce that Mr DUDLEY HOWARD PRATT, B.A., F.C.A., has joined them in partnership.

MESSRS THOMSON, GREGORY, THOL & Co, Chartered Accountants, of Salisbury House, London Wall, EC2, announce that they have admitted as partners Messrs E. S. THORN, F.C.A., E. N. C. HEWENS, F.C.A., J. E. POWELL, F.C.A., D. W. PRATT, F.C.A., R. M. LANG, F.C.A., and W. SAXELBY, F.C.A.

MESSRS J. T. A. WILLCOX, J. CROFTS MILBURN and B. J. BAILHACHE, Chartered Accountants, formerly of Barclays Bank Chambers, St Helier, Jersey, Channel Islands, announce that their address is now Martins Bank Chambers, St Helier, Jersey.

Professional Notes

Friends' Provident & Century Life Office and The Century Insurance Co Ltd, announce that Mr Bernard Harry Brigham, F.C.A., retired on June 11th, 1952. Mr Brigham joined the staff as accountant in September 1919, was appointed assistant general manager in December 1933, and since April 1936 had held the position of secretary. To succeed him as secretary, the directors have appointed Mr Samuel Arthur Mills, A.C.A. Mr Michael Greville Brigham, A.C.A., has been appointed Accountant.

Mr. J. H. Crawford, C.A., who has been chief accountant of Hambros Bank Ltd for thirty-two years, is retiring on June 30th. The bank is retaining his services in an advisory capacity.

The Royal Commission on the Taxation of Profits and Income

A public meeting of the Royal Commission on the Taxation of Profits and Income was held at the Chartered Auctioneers and Estate Agents' Hall, 29 Lincoln's Inn Fields, WC2, last Thursday, when evidence was heard from the British Employers Confederation, the Issuing Houses Association, and Professor F. W. Paish.

The Royal Commission will hold a further public meeting at 2.30 p.m. next Monday, June 16th, at the Chartered Auctioneers and Estate Agents' Hall, when evidence will be heard from the Trades Union Congress.

We hope to publish a report of the proceedings at both these meetings in our next issue.

Association of University Teachers of Accounting

MEETING FOLLOWING THE CONGRESS

The Association of University Teachers of Accounting plans to hold a meeting at which the members of similar bodies from oversea will have a chance to meet one another and discuss matters of common interest. The meeting will be held on the evening of Tuesday, June 24th (i.e. in the week following the Congress), at the London School of Economics. Would all who are interested kindly send word to Professor W. T. Baxter, London School of Economics, Houghton Street, Aldwych, London, WC2. An invitation, giving fuller particulars, will then be issued in due course.

American Institute of Accountants

Mr Jay A. Phillips, of Houston, Texas, has been nominated to serve as president of The American Institute of Accountants for the 1952–53 term. Mr Phillips is chairman of the Texas State Board of Public Accountancy and a past president of the Texas Society of Certified Public Accountants. He has been a member of the American Institute since 1928, and has served as its vice-president, a member of its governing council, chairman of the committee on federal taxation and chairman of the trial board.

The names of Mr Phillips and nominees for vice-presidents and treasurer will be presented by the nominating committee to the sixty-fifth annual meeting of the National Professional Society of Certified Public Accountants to be held in Houston from October 5th to 9th.

Four vice-presidents have been nominated for the coming term. They are Messrs Thornton G. Douglas, of Los Angeles, California; Samuel W. Eskew, of Louisville, Kentucky; Coleburke Lyons, of Detroit, Michigan; and Mark E. Richardson, of Washington, D.C. Mr Harold R. Caffyn, of New York City has been nominated for a third term as treasurer.

In addition to serving the Institute as treasurer for two years, Mr Caffyn has been a member of its executive committee, board of examiners, publication committee and committee on budget and finance.

Sheffield and District Society of Chartered Accountants

The seventieth annual general meeting of the Sheffield and District Society of Chartered Accountants was held in Sheffield on May 27th, with Mr Wilfrid B. Gowers, F.C.A., President of the Society, in the chair.

The report of the committee for the year ended December 31st, 1951, presented at the meeting, records a further steady increase in membership so that at the year's end the total of 199 members was twenty-four more than in 1950.

The 1951–52 lecture programme included seven lectures and a colour film and commentary on the 'Story of Steel'. Two luncheon meetings were held during the year.

The annual dinner, held together with the Students' Society, was well attended – 198 members and guests were present – and the guest speakers included the President of the Institute, the Lord Mayor of Sheffield and The Master Cutler.

The following officers have been elected for 1952–53:

President: Mr A. G. Smeeton, F.C.A.

Vice-President: Mr R. G. Beard, F.C.A.

Hon. Secretary: Mr W. R. Jenkinson, A.C.A., Hartshead Chambers, Sheffield, 1.

Hon. Treasurer: Mr H. Wharam, F.C.A.

Committee: Messrs R. W. Atkin, F.C.A.; C. G. Buck, A.C.A.; W. B. Douthwaite, B.A., F.C.A.; F. Downing, F.C.A.; J. F. Dunk, F.C.A.; R. Firth, A.C.A.; H. E. Jenkinson, F.C.A.; J. K. Patrick, F.C.A.; C. A. Smith, LL.M., F.C.A.; P. E. Smith, F.C.A.; B. Thomas, F.C.A.; W. A. Wheatcroft, F.C.A.; M. Yates, A.C.A.; and K. G. Shuttleworth, F.C.A. (as a member of the Council of the Institute of Chartered Accountants).

Birmingham and District Society of Chartered Accountants

At a meeting of the Birmingham and District Society of Chartered Accountants held on Friday, June 6th, the following officers were appointed for the ensuing year:

President: Mr H. James Gittoes, J.P., F.C.A.

Vice-President: Mr R. B. Dixon, F.C.A.

Hon. Secretary: Mr E. C. Turner, T.D., M.COM., F.C.A., 5 Lower Temple Street, Birmingham, 2.

Hon. Treasurer: Mr R. B. Leech, M.B.E., T.D., F.C.A.

Hon. Librarian: Mr S. Kitchen, A.C.A.

Oxford University Appointments Committees

In 1892 the Committee for Appointments was established at Oxford University with the object of assisting members of the University in finding employment by seeking and receiving information of openings for employment and by supporting the applications of suitable candidates. In 1951 the Committee's invaluable work continued for the sixtieth year and the annual report shows that total registrations, including the carry-over from 1950 of 1,054, numbered 2,894 compared with 2,613 and 2,435 in the two previous years. In addition, 378 university members not actively seeking employment came to the Committee for advice.

Over 7,500 vacancies were recorded, including just under 600 vacation posts (chiefly industrial). Some 2,300 of the permanent posts called for men with scientific qualifications. For Arts men in industry and commerce, the number of vacancies notified rose by 48 per cent, and 82 per cent of these notifications revealed interest in how the candidate worked rather than at what he worked. A further 300 educational vacancies and over 1,000 vacancies, chiefly industrial, calling for scientific qualifications were not recorded as candidates were neither available nor likely to occur.

The Women's Appointments Committee, which was established in 1938, has similar terms of reference. In 1951 the annual report shows that total registrations, including the carry-over from the previous year of 251, numbered 578. The registrations in 1948, 1949 and 1950 were 591, 557 and 636 respectively.

Appointments obtained through the Committee in 1951 totalled 170 and the four main employment groups were educational (43), government and quasi-government (28), commerce and industry (27), and secretarial (20). Further work of the Committee during the year included interviews to university members; many of the 507 given were purely advisory.

The Finance Bill

The Finance Bill, as amended in Committee, has now been published by Her Majesty's Stationery Office, price 4s net.

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CONTENTS

THE ROYAL COMMISSION

TWO further meetings have been held by the Royal Commission on the Taxation of Profits and Income on June 12th and 16th last, this time at the hall of the Chartered Auctioneers' and Estate Agents' Institute. On the first day oral evidence was given by representatives of the British Employers' Confederation and the Issuing Houses Association, and by PROFESSOR F. W. PAISH. The second day was devoted to witnesses on behalf of the Trades Union Congress. A report of the proceedings appears on page 660.

PROFESSOR PAISH has contributed an interesting memorandum on accounting in relation to changing price levels. He supports the contention that the definition of business profit should allow for the maintenance intact of the real capital, and he does so on the grounds both of equity and of public interest. In his view the basing of profit estimates purely on the money value of the assets tends to promote overspending and over-taxation in times of rising prices and, more serious still, underspending in times of falling prices, which in turn emphasizes booms and slumps unless counteracted by deliberate Budget surpluses and deficits on the part of the Government. He would remove this Governmental responsibility by introducing different methods of accounting.

It will be remembered that at earlier meetings of the Commission some members questioned the justice of giving relief to industry without compensating the individual for the fall in real value of his savings or pension. The professor's reply is that the two are not comparable, that the entrepreneur takes special risks and that to add to them the risks run by the rentier would be unjust and likely to bring undesirable social effects. It will be observed that this latter view is not shared by the Trades Union Congress. PROFESSOR PAISH'S detailed recommendations on accounting in times of changing money values are examined on page 639.

PROFESSOR PAISH is supported in principle by a memorandum submitted by the Issuing Houses Association which submits that credits to an inventory reserve for stock replacement should be allowed for income-tax and that the computation of allowances for depreciation should take replacement cost into account. The memorandum includes a detailed factual study of the fortunes of three companies under the impact of high taxation, two of these companies being named, and the study does demonstrate the serious inroads made by taxation. The Association stresses the anomalous effects of treating preference dividends as distributions for profits tax purposes and the probable eventual repercussions on the capital structure of companies. Its remaining submission is that either profits tax be replaced by a tax which does not have these anomalous results, or that preference dividends should cease

to be treated as distributions and should be allowed as a deduction for profits tax purposes.

A good many facts and figures are also given in the memorandum submitted by the British Employers' Confederation. After pointing out the enormous increase in taxation, both absolutely and as a proportion of the national income, it claims that the changing pattern of taxation has increased the real incomes of the lower income groups at the expense of the higher income groups, and that the full effects of this change have yet to appear. Any further lightening of burdens of the lower income groups could now only be achieved by reducing Government expenditure and not by transferring any more burdens to the higher income groups.

Dealing with the effect of tax on incentives, the memorandum confines its remarks to weekly wage earners. It has no evidence that taxation has affected the supply of persons willing to train for higher posts but is satisfied that taxation does discourage effort, particularly in relation to overtime and bonus schemes, although the extent of the discouragement is difficult to gauge.

The Confederation has examined the various proposals for the reform of P.A.Y.E. to remove disincentive, but for the reasons it sets out it is unable to recommend any of them as being on the whole an improvement. In particular it regards as undesirable any extension of the employer's duties in this connexion, or any scheme which obliges an employee to give details of his domestic circumstances to the employer.

The Confederation also examines the familiar schemes for integrating income-tax with social security, under which wage-earners would pay a flat rate of tax but no contributions as such, and would receive cash allowances depending on their domestic status. It considers that a high flat rate would have serious repercussions on lower-paid workers who now suffer no tax and that the retention of specific contributions is psychologically desirable as a reminder that the benefits of social insurance have to be paid for.

The Confederation claims that there is a lack of uniformity in the granting of allowances for clothes and tools to manual workers, and that clerical workers and staff employees have difficulty in obtaining any allowance at all. It also draws attention to an anomaly created by the rules for determining residence. An employee who takes a temporary appointment abroad often finds that, although he is abroad nearly two years, he pays British tax on all his remuneration. In the Confederation's view this causes difficulty in obtaining suitable staff and may affect this country's prestige and the benefits accruing from the earning of foreign currencies.

The Trades Union Congress has submitted a long memorandum, with two supplements, in which it closely examines the economic and social significance of the tax structure.

It holds that the disincentive effect of P.A.Y.E. has been exaggerated and could be reduced still further by more publicity about its precise workings. The T.U.C. does not support any of the various flat rate schemes but anticipates the Budget (the memorandum was submitted in May 1951) by proposing that there should be at least three reduced rates: 3*s* for the first £100 of taxable income, 5*s* 6*d* for the next £100, and 7*s* 6*d* for the next £50. It also anticipates the Budget by urging an increase in personal allowances to compensate for the rising cost of living.

While advocating higher rates of tax on unearned income in the higher sur-tax ranges, the T.U.C. considers that the redistribution of incomes by high taxation has been carried almost as far as is practicable. Like the Employers' Confederation it opposes the integration of income-tax with social security and supports the retention of specific contributions largely for their psychological effect.

The T.U.C. would tax gambling profits and also profits from capital transactions. On the subject of taxation's effect on risk-bearing, the T.U.C. says it does not accept the allegation that present taxation will make industry stagnate. It claims that the central policy of full employment helps to remove risk and that statistics show that there is no scarcity of capital available for new equity issues. However, in view of the recognized reduction in saving by private investors, the T.U.C. advocates the provision by the Government itself of risk capital.

Profits tax finds a staunch supporter in the T.U.C. on the grounds that it encourages corporate saving and that since the Government policy of full employment increases corporate incomes more than personal ones, there should be a special tax on the former.

CHANGING PRICE LEVELS AND ACCOUNTING

THE memorandum which PROFESSOR F. W. PAISH has submitted to the Royal Commission on the Taxation of Profits and Income contains details of a scheme for adjusting profits by reference to changes in the value of the money units in which the profits are expressed.

The Professor welcomes the discontinuance of the initial allowance but points out that without it the depreciation allowances granted in 1951 would have been quite inadequate. He advocates a more rational method of setting aside untaxed profit to maintain business capital intact.

He does not, however, favour the replacement cost criterion for depreciation allowances, although agreeing that it will usually be more accurate than historical cost. The weakness of the replacement cost basis lies in the fact that price changes for different goods do not proceed at the same rate, nor even in the same direction. When a business asset, fixed or circulating, rises in price relatively to the general price level, its owner reaps a real and not merely an apparent advantage, which ought properly to be brought into account for tax purposes. Accordingly, the Professor considers that only that part of book profit which is attributable to a general rise in prices (ascertained from a specially prepared index) should be eliminated.

The Professor's scheme contemplates the computation of profit in the traditional way, followed by a special adjustment to eliminate book profit resulting from a general price rise, or to add back a book loss resulting from a corresponding fall. Apparently there would be a separate computation for each fixed asset on which depreciation was allowed. The depreciation would be computed in the ordinary way but in times of rising prices a further sum would be debited to profit and credited to a special replacement reserve. This sum would be arrived at by taking a fraction of the depreciation allowance, the fraction being the fractional increase in general prices since the asset was first acquired. Thus if the general price index was 100 when the asset was acquired, and 125 when the depreciation is granted, an additional quarter of the conventional allowance would be deducted from profit.

The corresponding stock adjustment in times of general price rise would be to deduct from profit a fraction of the book value of the opening stock, the fraction being the fractional rise in prices during the accounting year. This sum would also be credited to replacement reserve. There would be corresponding additions to profit and debits to replacement reserve in times of falling prices. The method presupposes a fairly constant quantity of physical stock. If the quantity fluctuated from year to year, an adjustment could also be made for the closing stock and the average of the two adjustments taken. For a 25 per cent increase in prices, the closing stock adjustment would be one-fifth, not one-quarter. Stock varying widely in quantity from month to month could be taken each month so that the average of twelve separate adjustments could be taken. This last possibility is hardly likely to arouse much enthusiasm among those who would have the task of carrying it out.

Investments and other assets, such as land, which receive no allowance for depreciation, would not be the subject of an adjustment. However, the memorandum deals with the criticism that if the trader is to have relief in respect of rises in the money value of his assets, the relief should take into account the fall in the real burden of the debts he owes, particularly if his business is largely financed by borrowed money at fixed interest.

PROFESSOR PAISH would treat borrowed money and fixed-dividend capital, to the extent to which they exceed a company's debtors and fixed interest investments, as a 'negative inventory'. Adjustments would be made whereby there were corresponding additions to profit when prices rose, and deductions when prices fell.

It is here that the Professor appears to be getting into deep water. He does not distinguish between money borrowed to finance stock and money borrowed to finance fixed assets. Much less does he distinguish for this purpose between assets for which a depreciation adjustment is made and fixed business assets which do not rank for depreciation allowances. A net addition to profit in respect of a rise in general price level would in effect constitute the taxation of an unrealized capital gain.

THE FINANCE BILL

THE REPORT STAGE

TUESDAY and Wednesday of this week were devoted by the House of Commons to the Report Stage of the Finance Bill.

The Bill has been republished after incorporating the amendments which were agreed to in Committee and which we referred to in these columns on May 10th, 24th and 31st, and June 10th. These amendments have lengthened the Bill by fifteen pages, the pages devoted to excess profits levy being increased from fifty-two to sixty-seven. In addition, the Report Stage began with over seventy further amendments tabled by the CHANCELLOR, not to mention the private and Opposition amendments.

One of the CHANCELLOR's amendments implements his undertaking to relieve pre-1947 small cars from the full burden of the new £12 10s licence duty. For vehicles not exceeding six horse power the new duty is to be £9; for vehicles not exceeding seven horse power it is to be £10 10s. There are minor amendments in respect of entertainments duty and purchase tax.

Representations were made in Committee that the £13 limit of earnings for apprentices and the like in respect of whom child allowance was claimed was too low for the present day. Accordingly Section 212 (3) (*b*) of the Income Tax Act, 1952, is to be amended by increasing the £13 to £26 – not a very startling concession.

One of the minor provisions of excess profits levy which attracted criticism in Committee was what is now clause 43, which deals with the apportionment of profits where an 'accounting period' (as defined in clause 42) does not coincide with a period for which profit is required to be computed for levy purposes. As in the case of profits tax, the apportionment was to be made on a strict time basis 'unless the Commissioners [of Inland Revenue], having regard to any special circumstances, in their discretion otherwise direct'. The point was made that the taxpayer was at the mercy of the Commissioners on this wording. The CHANCELLOR's amendment gives the taxpayer the right to insist on an apportionment by reference to accounts prepared for a period shorter than the accounting period, if such accounts have in fact been made up. However, he will have to show that the books have been balanced and stock taken for the purpose of these short-period accounts. A corresponding amendment to the profits tax provision would appear to be indicated. The profits tax provision referred to was the subject of litigation in *Jenkins Productions Ltd v. C.I.R.* ([1944] 1 All E.R. 610; 22 A.T.C. 42).

Clause 52 of the Bill, which grants additional percentages in favour of concerns working metal mines or oil wells, has been extended to include coal mines and asbestos. Moreover, other concerns are to be permitted to apply to the Board of Referees for additional percentages, provided they work mineral deposits of a wasting nature. The Inland Revenue are given power to make regulations governing applications.

Another amendment tabled by the CHANCELLOR implements the undertaking to reconsider the position of a company which trades in partnership with others and takes a different share of the firm's profit in the chargeable period from that taken in the standard years. The amendment takes the form of a new sub-clause to clause 57 providing that the standard profit shall be computed on the footing that the company had the same share in the standard years as in the chargeable period. On the other hand, any sum paid by it in respect of the alteration of its share of partnership profit is to be treated as a return of share capital, while any sum received is to be treated as an issue of share capital.

The CHANCELLOR gives special relief to ship-owning and ship-operating companies which have elected the 'straight-line' method of wear and tear. If the allowance in a chargeable period is restricted because of the operation of the rule which confines the aggregate allowances to cost, the amount of the restriction is to be added back to the allowance. However, if there was a similar restriction for the standard years this new additional allowance for the chargeable period is to be restricted in the same proportion.

The promised amendment to give relief to investment companies in respect of 'franked investment income' takes the following form:

Reduction, in certain cases, of excess profits derived from investments

(1) Subject to the provisions of subsection (2) of this section, where the functions of a body corporate consist wholly or mainly in the holding of investments, the provisions of this Act relating to the excess profits levy shall have effect in relation to it as if each of the following amounts, that is to say –

(*a*) the excess of its profits for a chargeable accounting period over its standard profits;

(*b*) the deficiency of its profits for a chargeable accounting period;

(*c*) its profits for the whole period mentioned in subsection (1) of Section 41 of this Act

were reduced by such an amount as bears to the whole thereof the same proportion as so much of its profits for the said chargeable accounting period or, as the case may be, the said whole period, as is attributable to sums received by it by way of dividend or distribution of profits from other bodies corporate ordinarily resident in the United Kingdom bears to the full amount of its profits for that period.

(2) This section does not apply to a body corporate which is a member of a group within the meaning of the Twelfth Schedule to this Act unless the functions of each of the other members of the group also consist wholly or mainly in the holding of investments.

(3) For the avoidance of doubt it is hereby declared that the references in this section to the holding of investments do not include a reference to the holding of land.

Representations on behalf of the Mersey Tunnel Authority have produced a new clause to extend the meaning of 'industrial building or structure' for the purposes of capital allowances. Under it the definition is to include buildings and structures in use for a 'tunnel undertaking'.

An interesting amendment tabled by private members would give an allowance to individuals in respect of accountancy fees incurred by them in settling their income-tax liability.

WEEKLY NOTES

Reduced Drain on Reserves

Since the end of March the drain on the sterling area's reserves has been almost stopped – the actual decline was £10 million over a period of two and a half months. The Chancellor of the Exchequer was hard put to it to make the figures look as good as this when he made the announcement last week, for the balance is struck after allowing for defence aid from the United States. Indeed, immediately afterwards the foreign exchange market seemed to prefer to take its lead from the more ominous note struck by the Prime Minister a few days before and sterling eased slightly. It is, however, something of an achievement to have stopped the flow, even if the process of rebuilding our sadly depleted reserves remains with us as the first call on the resources of the economy.

The Chancellor's statement was in fact followed twenty-four hours later by the provisional trade returns for May, and these have their encouraging side. Exports were higher on the month and imports were slightly down. The result was a drop in the adverse balance. It fell from just over £96 million in April to just under £85 million in May. Apart from this improvement in the overall figures, there was also a noticeable improvement in this country's dollar exports last month. Exports to the United States were up by 18 per cent compared with the average of the first four months of the year, and exports to Canada were 30 per cent higher on the same basis of comparison.

It remains to be seen if these export figures take into account the consequences of the cut in imports made by various countries of the sterling area. If they do, the increased flow to the North American continent must represent not only an important advance in the value of hard-currency exports, but also a critical addition to the total of exports which have to find other markets now that some Dominion markets are temporarily closed.

Britain's Shops

This country now has for the first time a comprehensive list of those engaged in what is often considered to be its traditional occupation – shopkeeping. The Board of Trade has been able to make this count in preparing a mail-list for the Census of Distribution.

There are, it appears, 714,788 shops and service establishments in Britain which works out at one for every 68½ people. This is a high density: in the United States a roughly comparable figure is 131 and in Canada 107. Looking at the density of different kinds of shops in this country, grocers and dairy shops with 27·3 per 10,000 of population are easily first. They are followed at less than half the density by restaurants and shops selling women's and children's wear. Hairdressing and motor trade establishments come roughly next along with butchers. Hardware and electrical goods are both well down the list – and so are shops selling men's wear.

Looked at regionally, Lancashire, Cheshire and the High Peak area have more shops than the Greater London area – 113,207 against 111,742 – although the population is almost exactly two million less at about 6·5 million. The figures bring out generally a higher density of shops in the North of England than elsewhere which is probably due to the existence of a large number of small shops 'around the corner'.

FINANCE AND COMMERCE

Indications of improvement in the dollar deficit position have failed to enliven stock markets. If there is any one overriding factor in the present position it is the uncertainty over the prospect of a further bank rate increase. A higher rate would of course mean lower security values despite improvement in the external economy.

New Dunlop Profit and Loss Account

The Dunlop Rubber Co Ltd, which just over twenty years ago pioneered the form of balance sheet which has since become standard practice, has this year changed the form of its profit and loss account. The object of the change is to present what is felt is a more accurate picture. How it does so can be seen by comparing the new form with last year's account which we have included in our partial reprint this week. The term 'profit', it will be noted, is not used until the amount available for disposal is reached.

This year also, the directors acknowledge in the accounts the effect of the reduced purchasing power of the currency by the setting up of a reserve for the replacement of fixed assets in the United Kingdom. The amount provided out of the year's income is £470,000 which is shown in the same context as debenture and loan interest and the provisions for taxation.

A transfer of £2,960,000 has been made from general reserve to the replacement reserve to provide the amount estimated to be required in previous years for replacements in addition to depreciation based on original cost. The report adds that in the future, as prices increase or decrease, or as plant is actually replaced, the amount of the special account will be reviewed each year.

The accounts in the original provide profit and loss accounts for the company, the subsidiaries and the group, and the two balance sheets. Notes on the accounts giving the detail figures and explanations cover three further pages. A ten-year table of comparative results follows.

The volume of sales is dealt with in the directors' report but might well be a separate statement. Aggregate group sales, including services and supplies within the Group amounted to £284 million compared with £197 million. The ratio of profit to turnover was 6·5 per cent before taxation and 2·2 per cent after taxation compared with 9·2 per cent and 3·4 per cent for the previous year.

Enfield Cables

The investigation of the affairs of Enfield Cables Ltd by Messrs Peat, Marwick, Mitchell & Co, Chartered Accountants, is as much a matter of public interest as it is the concern of the company's shareholders – in some ways possibly, even more so. This is a business with an established record of profit-making whose directors in 1951 lost their bearings and had to confess when the year's figures were available that a fall in profit from £396,796 to £71,752 was a complete surprise. The shock is the more serious because it is, as the chairman has admitted, contrary to the opinion expressed by the board on December 12th, three weeks before the end of the accounting period, when 400,000 £1 ordinary shares were offered to shareholders at 27*s* 6*d* each.

So far as turnover was concerned, it was a record year for the company. The two main factors leading to the fall in profits are given as the incidence on operations of the Government's copper rationing and difficulties in the development of the South Wales subsidiary, Brynmawr Rubber Ltd. But copper rationing, it is pointed out by the critics, came into effect on January 1st, 1951, the first day of the accounting period.

The investigation should pin-point the trouble. Meantime, one cannot but wonder whether the matter would have proceeded to its present state had the company issued quarterly figures.

Centenary Accounts

From Mr J. H. Lawrence, A.C.A., secretary of Glenfield & Kennedy Ltd, we have received the accounts which mark the centenary of the business. The company, among other things, makes the sluice valves for water-power stations.

For its centenary accounts – and we hope for the future – the illustrated booklet form has been adopted with supplementary information in the form of 'cake-cutting' and Financial Facts in Brief. One important development this year is the investigation into 'the shortage in our annual provision for depreciation'. The calculations, using indices compiled by *The Economist*, have resulted in an addition of £59,516 for 'transfers to reserves for increased cost of replacement of fixed assets' to the £137,156 shown as 'depreciation of fixed assets'. The calculations further showed a deficiency of £520,000 for past years which will be provided gradually so far as possible out of taxed surpluses. A beginning has been made with £100,000 in the appropriations.

Warning shareholders 'not to be misled by the large figures of so-called profit', the chairman remarks that it is generally accepted by everyone, except the Inland Revenue, that there is no true profit until provision has been made for upkeep and replacement of fixed assets and the maintenance of adequate working capital to support the volume of business the fixed assets are designed to produce.

Money Market

Treasury bill applications on June 13th increased by some £4 million over the previous week at £310,425,000. Increasing the bid to £99 8*s* the market obtained 72 per cent of requirements against 71 per cent previously and the average discount rate was reduced to £2 8*s* 0·36*d* per cent. The offer of bills this week is increased to £250 million.

DUNLOP GROUP CONSOLIDATED BALANCE SHEET
as at December 31st, 1951

1950 £			£	£
	I. Issued Share Capital of Dunlop Rubber Co Ltd:			
1,000,000	1,000,000 6½% 'A' Cum. Pref. Shares of £1 each, fully paid		1,000,000	
1,000,000	1,000,000 7% 'B' Cum. Pref. Shares of £1 each, fully paid ..		1,000,000	
2,400,000	3,000,000 10% 'C' Cum. Pref. Shares of 16s each, fully paid		2,400,000	
12,853,969	£12,853,969 Ordinary Stock		12,853,969	
17,253,969				17,253,969
	II. Reserves and Surplus attributable to Dunlop Rubber Co Ltd:			
	Capital Reserves:			
5,547,052	(a) Share Premium Accounts (*Note 10*) ..	£5,718,302		
572,509	(b) Excess Profits Tax Post-war Refund Suspense Accounts	574,404		
1,629,290	(c) Other Capital Reserves (*Note 11*) ..	1,997,132		
7,748,851			8,289,838	
	Revenue Reserves:			
17,421,756	(d) General Reserves (*Notes 12 and 15*) ..	15,736,192		
3,447,182	(e) Surplus (*Notes 13 and 15*)	4,782,556		
20,868,938			20,518,748	
—	Replacement of Fixed Assets in the United Kingdom – Amount set aside in respect of the increased cost to date (*Note 14*)		3,430,000	
28,617,789				32,238,586
	III. Interest of Minority Shareholders in Subsidiary Companies:			
8,920,350	(a) Shares		9,341,539	
708,761	(b) Reserves and Surplus (including Share Premium Accounts, £81,875 and other Capital Reserves, £16,468) ..		705,969	
9,629,111				10,047,508
	IV. Debenture Stock and Loans:			
5,597,108	(a) Dunlop Rubber Co Ltd secured Debenture Stock ..		5,452,208	
1,344,202	(b) Subsidiary Companies' secured Debentures, and Loans		3,217,357	
6,941,310				8,669,565
	V. Future Income Tax:			
4,424,045	Estimated 1952–53 Liabilities, payable in 1953			3,909,140
	VI. Current Liabilities and Provisions:			
12,518,386	(a) Sundry Creditors and Accrued Liabilities		12,310,703	
4,569,820	(b) Bills Payable		13,565,631	
2,284,512	(c) Bank Loans and Overdrafts (*Note 16*)		6,786,460	
5,017,438	(d) Sundry Provisions (*Note 17*)		5,382,530	
7,656,984	(e) Taxation Payable in 1952		9,981,858	
	(f) Proposed Dividends, *less* Income Tax where applicable:			
1,279,395	Dunlop Rubber Co Ltd – Dividends		1,279,395	
194,148	Dividends of Subsidiaries to Minority Shareholders ..		223,334	
33,520,683				49,529,911
	VII. Exchange Suspense Accounts:			
137,771	Being amounts reserved for unrealized exchange differences			133,639
£100,524,678				£121,782,318

1950 £		£	£
	I. Fixed Assets at Cost, *less* Depreciation or Amortisation (*Note 18*):		
10,496,521	(a) Land, Buildings and Premises	10,760,554	
2,040,567	(b) Rubber Estates	1,898,291	
10,985,326	(c) Plant, Machinery and Equipment	12,050,505	
661,300	(d) Patents, Trade Marks, Licences and Royalty Agreements	661,300	
24,183,714			25,370,650
	II. Investments at Cost, *less* Amounts written off:		
900,419	(a) Trade Investments	956,805	
10,768	(b) Other Investments not quoted	22,033	
—	(c) Cash in hands of Trustees for Debenture-holders ..	29,148	
911,187			1,007,986
	III. Current Assets:		
40,015,731	(a) Inventories at or below Cost	61,246,077	
20,352,586	(b) Sundry Debtors, Bills Receivable, etc., *less* Provisions ..	22,753,752	
468,754	(c) Deferred Charges	564,271	
116,264	(d) Marketable Securities (Market value, December 31st, 1951, £67,248)	54,469	
750,000	(e) U.K. Tax Reserve Certificates	—	
11,843,126	(f) Bank Balances and Cash	8,740,950	
73,546,461			93,359,519
1,883,316	**IV. Goodwill Accounts** – including the net difference between the value at which inter-company holdings of shares are taken as assets into the Balance Sheets, and their par values, *less* undistributed profits at the date of acquisition of such shares		2,044,163
£100,524,678			£121,782,318

CLIVE BAILLIEU, *Chairman.*
G. E. BEHARRELL, { *Deputy Chairman and Managing Director.*
JOHN H. LORD, *Director.*

(Notes not reproduced. – *Editor*)

DUNLOP GROUP CONSOLIDATED PROFIT AND LOSS STATEMENT

(Incorporating Dunlop Rubber Co Ltd (p. 8) and Subsidiary Companies (p. 9))
for the year ended December 31st, 1950

1949 £	Statement of Profit	£	£
	I. Trading Profits *less* Losses (*Note 1*):		
4,035,126	(*a*) Dunlop Rubber Co Ltd (*see p. 8 Item 1*)		5,049,795
5,369,686	(*b*) Subsidiary Companies (*see p. 9 Item 1*)		12,489,487
9,404,812	(*c*) Total		17,539,282
	II. Investment Income:		
55,042	(*a*) Trade Investments	66,195	
20,996	(*b*) Other Investments	14,639	
			80,834
9,480,850	**III. Operating Profit**		17,620,116
	Add:		
	IV. Exceptional Items, i.e. Surplus Provisions (£117,340) and		
194,499	Sundry Profits (£77,571) relating to previous years		194,911
9,675,349			17,815,027
	Less:		
3,059,373	V. (*a*) Provisions for Depreciation	3,754,947	
29,806	(*b*) Audit Fees	39,616	
235,898	(*c*) Interest on Debenture Stock and Loans	265,711	
22,277	(*d*) *Guaranteed Preference Dividend*	—	
3,347,354			4,060,274
6,327,995	**VI. Net Profit**		13,754,753
	VII. *Amount received (less Income Tax) on account of claims for refund of Excess Profits Tax in respect of Companies previously in enemy and enemy occupied territories*		
750,000			—
£7,077,995	**VIII. Available Net Profit**		£13,754,753
	Disposal of Profit		
	IX. Provisions for Taxation (*Note 2*):		
908,894	(*a*) Foreign		3,375,899
2,549,973	(*b*) United Kingdom		5,315,991
3,458,867			8,691,890
	X. Appropriations in Subsidiary Companies:		
	(*a*) Minority Shareholders' proportion:		
43,620	(1) Transfers to Reserves and Surplus	24,059	
326,703	(2) Dividends *less* Income Tax where applicable	462,126	
370,323			486,185
	(*b*) Dunlop Rubber Co Ltd proportion:		
5,346	(1) Transfers to Capital Reserves	24,462	
238,271	(2) Transfers to Revenue Reserves	303,415	
57,798	(3) Increases in Surplus carried forward	931,883	
301,415			1,259,760
	XI. Appropriations in Dunlop Rubber Co Ltd:		
2,000,000	(*a*) Transfers to Revenue Reserves	1,915,000	
206,250	(*b*) Preference Dividends for the year, *less* Income Tax	201,563	
691,599	(*c*) Proposed Ordinary Dividend for the year, *less* Income Tax	1,180,958	
49,541	(*d*) Increase in Surplus carried forward	19,397	
2,947,390			3,316,918
£7,077,995			£13,754,753

(Incorporating Dunlop Rubber Co Ltd (p. 8) and Subsidiary Companies (p. 9))
for the year ended December 31st, 1951

1950 £	Statement of Profit	£	£	£
	I. Net Balances from Trading (*Notes 1 and 2*):			
5,094,798	(*a*) Dunlop Rubber Co Ltd (*see p. 8 Item 1*)			5,052,655
12,485,702	(*b*) Subsidiary Companies (*see p. 9 Item 1*)			12,816,469
17,580,500	(*c*) Total			17,869,124
	Less:			
3,754,947	II. Depreciation			3,969,596
13,825,553				13,899,528
	Add:			
194,911	III. Exceptional Items relating to previous years			371,193
14,020,464				14,270,721
	Less:			
265,711	IV. Interest on Debenture Stock and Loans		277,410	
—	V. Amount set aside for 1951 (as further Depreciation) in respect of the increased cost of Replacement of Fixed Assets in the United Kingdom		470,000	
	VI. Provisions for Taxation (*Note 3*):	£		
3,375,899	(*a*) Foreign	4,103,635		
5,315,991	(*b*) United Kingdom	4,812,263		
8,691,890			8,915,898	
8,957,601				9,663,308
£5,062,863	**VII. Net Profit available for Disposal** (*Note 4*)			£4,607,413
	Disposal of Profit			
	VIII. Appropriations in Subsidiary Companies:			
	(*a*) Minority Shareholders' proportion:			
24,059	(1) Transfers to Reserves and Surplus		100,323	
462,126	(2) Dividends, *less* Income Tax where applicable		435,083	
486,185				535,406
	(*b*) Dunlop Rubber Co Ltd proportion:			
24,462	(1) Transfers to Capital Reserves		29,820	
303,415	(2) Transfers to Revenue Reserves		368,980	
931,883	(3) Increases in Surplus carried forward		1,333,495	
1,259,760				1,732,295
	XI. Appropriations in Dunlop Rubber Co Ltd:			
1,915,000	(*a*) Transfers to Revenue Reserves		960,000	
201,563	(*b*) Preference Dividends for the year, *less* Income Tax		196,875	
1,180,958	(*c*) Proposed Ordinary Dividend for the year, *less* Income Tax		1,180,958	
19,397	(*d*) Increase in Surplus carried forward		1,879	
3,316,918				2,339,712
£5,062,863				£4,607,413

(Notes not reproduced. – *Editor*)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

What should the Accountant do?

SIR, – During some years of acting as assistant to various partners of firms of accountants I have on several occasions been surprised by their methods in dealing with Inspectors of Taxes. To illustrate what I have in mind I will give two examples of problems that may arise:

(1) There has been substantial expenditure by a business on repairs which are of the nature of improvements. Should the accountant
  (a) ascertain the proportion of improvement and add back what he thinks fair; or
  (b) merely supply the usual details of the accounts without revealing that part of the expenditure is in respect of improvements unless the Inspector asks?

(2) Tax agreed to be payable has not been demanded although long overdue. Should the accountant
  (a) draw the Inspector's attention to the oversight; or
  (b) wait for the six-year time-limit to expire and then quietly forget the matter?

My personal feeling is that to adopt course (*b*) in either of these instances is unprofessional and, in the second instance, dishonest. I say that while alive to the fact that an accountant owes his prime loyalty to his client.

If, however, any readers disagree with me I shall be very grateful if they will express their point of view.

Yours faithfully,
B.COM., C.A.

Accounting in Relation to Changes in the Purchasing Power of Money: Recommendation XV

SIR, – The Council of the Institute are to be congratulated on producing Recommendation XV, concerning accounting in relation to changes in the purchasing power of money and you, Sir, on your leading article where you suggest that the root cause of our troubles is inflation itself, which must at all costs be removed.

The Council, I think quite rightly, have refused to bow their heads to the storm which has been gathering over the past year.

As you rightly state, the root cause of our troubles has been the increasing momentum of inflation, in order to stop which Mr Butler is trying the remedy of restricting credit, but I would with respect suggest that we have two root causes which cannot be left unremedied very much longer.

The first and more important cause seems to be that we are trying unsuccessfully to support a top-heavy economy; we are trying to support too many people at a high standard of living. The answer is obviously, I think, to reduce the standard or to reduce our numbers and in a word this means emigration. This remedy has already the approval, I believe, of the Chiefs of Staff Committee, but the fact remains that most energetic measures will have to be taken and on a large scale to ensure that the movement itself is both large and permanent.

Secondly, there must be the most ruthless curtailing of Government expenditure. We seem to be paying far too much for our national administrative overheads. For example, a short while ago I was told on very good authority that of the total educational expense bill, no less than one-third goes to administrative expenses. There seems little doubt that this sort of thing is repeated in other branches.

Yours faithfully,
Somerset. L. H. TRIMBY.

Tax Complainants

SIR, – I am looking forward to the day, and I am sure many others of your readers are, when we shall read a letter from a complainant which not only sets out the taxes that ought to be abolished, but also sets out – with as convincing reasons – the destination of the abolished taxes.

A central government, of whatever political hue, requires a vast amount of money to enable it to function. If the income-tax is abolished, a gap is created that must be filled. The filling of the gap is just as much the task of the complainant as was the digging out of the gap.

Obviously, it is the duty of the Chancellor to find the money, but if complainants will take over his duties to the extent of stating what taxes shall be abolished they must also take on the additional task of saying what fresh taxes shall be imposed to take the place of the taxes abolished; and here the fun would commence.

Yours faithfully,
London, EC2. E. HARMAN.

Repairs Chargeable Against Profits

SIR, – Our client's warehouse includes a basement in an old building. The front wall was in extremely poor condition and supported the joists of the ground floor above. A contractor called in pronounced it beyond repair and recommended building a new wall as close as possible to the old, which was done.

To us, this appears to be clearly a repair and chargeable against profit. H.M. Inspector takes the opposite view.

We should be glad of the views of any of your readers who have had a similar point to deal with.

Yours faithfully,
Birmingham, 4. R. P. ALLSOP & CO.

THE

ACCOUNTANT

Congress Daily News

PUBLISHED IN ASSOCIATION WITH THE COUNCIL OF THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952

No. 1 MONDAY, JUNE 16th, 1952 Issued free by the publishers of The Accountant

WELCOME TO LONDON

THE CONGRESS BEGINS

Thirty-six Countries Represented

Today the accountants of England, Scotland and Ireland have the honour and pleasure of welcoming their professional brethren from thirty-five other countries. It is nineteen eventful years since they last did so, and, though the world is beset by difficulties of every kind, it is a most happy thing when members of the same calling meet on the common ground of their professional ideals and interests, with mutual respect and friendliness existing between hosts and guests.

Keynote of the Week

The keynote of the week is being set by the services held today in Westminster Abbey and Westminster Cathedral, and the programme of events most skilfully combines work, formal entertainment and informal play.

The sponsoring bodies are to be congratulated on avoiding the pitfall of too many business sessions; there should not be any dull boys at this Congress. Minds jaded by highly technical discussions will be able to relax at the theatre tomorrow evening; on Wednesday the accountant in industry and the accountant in practice and in public service will meet at night for a banquet in Guildhall.

Government Reception

Thursday is wholly given up to non-professional pursuits and a Government reception is being held in the evening. After this interlude Friday will be devoted to the discussion of 'the incidence of taxation'; the President will give his closing address in the afternoon, and a cocktail party given by *The Accountant*, followed by the Congress Ball, will bring the week to an end.

Entertainment in Scotland and Ireland

Scotland, Northern Ireland and Eire have made special plans for entertaining the visitors during the week beginning Monday, June 23rd. We know that we are expressing the feelings of those responsible for the Congress arrangements in hoping that all the visitors will enjoy themselves to the full and find pleasure and profit in the plans made for them.

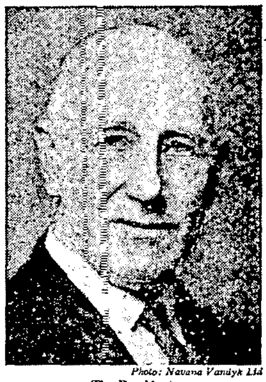


Photo: Navana Vandyk Ltd

The President

Sir Harold Gibson Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., is a leading personality in the accountancy profession in Great Britain. He is a member of the Council of The Institute of Chartered Accountants in England and Wales and was President in 1945–46. A partner in the firm of Peat, Marwick, Mitchell & Co, Sir Harold was a member of the Air Council from 1939 to 1946 and has been on numerous government boards and committees. He was chairman and deputy chairman of the British Overseas Airways Corporation from 1943 to 1948, and a member of the tribunal which, in 1946, assessed the compensation due on nationalization to the coal mining industry.

MESSAGE FROM THE PRESIDENT

I have been asked by the proprietors of THE ACCOUNTANT *to write a foreword to the first number of* 'THE ACCOUNTANT' CONGRESS DAILY NEWS *by means of which they propose to report the proceedings of this Congress. I am glad to do so because I am grateful to them for the trouble they are taking, and propose to take, to make the Congress a success.*

The reporting of the technical and social matter which will need to be dealt with at speed and in a manner to cater for the varied requirements of men and women drawn from many countries, and having no doubt widely differing views, is no easy task. I feel sure our visitors will be conscious of the difficulties involved and will co-operate fully.

It is the intention of the sponsoring bodies of accountants that everything in their power shall be done to make this Congress memorable and a worthy successor of those that have gone before. Whether or not we achieve this must depend in large measure on the manner in which the reporting is carried out and I know that THE ACCOUNTANT *intends to spare no effort on behalf of all concerned. I wish them well.*

H. Howitt

THE ACCOUNTANT

Congress Daily News

It is a foregone conclusion that the Congress will be as successful as its predecessors. By the publication of this daily newspaper which will be issued free to all attending the Congress, Gee & Co (Publishers) Ltd hope to contribute to the value of this notable occasion.

All that is interesting to members will be reported in our columns – the business and social sessions, many photographs and biographical notes on personalities. We hope to offer our readers all that is 'news'.

On other pages

A special newspaper was issued free to Congress members by the publishers of *The Accountant* each day during the week of the Congress. The front page of our first issue, published last Monday, is reproduced above.

THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952 – I

PROCEEDINGS ON MONDAY AND TUESDAY

The culmination of many months of careful preparation and planning was reached when last Monday and throughout this week the accountants of England and Wales, Scotland and Ireland have had the honour and pleasure of welcoming their professional brethren from other countries. It is nineteen eventful years since they last did so, and though the world is beset by difficulties of every kind, it is a most happy thing when members of the same calling meet on the common ground of their professional ideals and interests. In the following pages we present a report of the proceedings during the first two days of the Congress.

SPECIAL CONGRESS SERVICE

Westminster Abbey

About 1,000 members of the Congress, many accompanied by their ladies and children, attended the special Congress service held in Westminster Abbey on Monday morning at 10.30.

The service was conducted by the Dean of Westminster, the Very Rev A. C. Don, K.C.V.O., D.D., assisted by the Precentor (Rev C. T. H. Dams, M.A.).

The hymns were 'Bright the Vision that delighted', 'Teach me, my God and King', and 'Thy Kingdom Come! on bended knee'. After Psalm cxi (*Confitebor Tibi*), the lesson, from St Matthew vi 19–34, was read.

The Sermon

The sermon was preached by the Dean, Dr Don, taking as his text Matthew vi 33: *Seek ye first the Kingdom of God and His righteousness and all these things shall be added unto you.*

Dr Don said:

'It is always comforting to me to think how very human our Lord's original disciples were. In due course, through their companionship with Jesus, they became changed men; they were converted – all except Judas Iscariot. But to start with they were much like the rest of us – very ordinary men.

'Think, for example, of the two brothers James and John, the sons of Zebedee. They were young enthusiasts, hotheads perhaps – "Sons of Thunder" our Lord called them. Once they had become convinced that Jesus was the Messiah they kept thinking about the good times coming; for they had heard tell of the glory of the Messianic kingdom that was to be, and of the Messianic banquet that was to usher in the golden age for Israel.'

Seeking Greatness

'So they came one day to Jesus and tried to stake a claim for their share, and more than their share, of the benefits that would fall to the lot of the followers of the Messiah. "Grant unto us", they naïvely said, "that we may sit one on thy right hand and one on thy left in thy glory." No wonder that they were taken aback when Jesus told them, in effect, that they did not know what they were talking about. "Ye know not what ye ask," He said; you do not understand the kind of Messiah I am or the nature of the kingdom I have come to found, nor do you grasp the conditions that must be fulfilled if you are to have any share in it. "Are ye able to drink the cup that I drink of, or be baptized with the baptism that I am baptized with?" That is what I want to know. Like the Gentiles, you think that greatness consists of getting something for yourselves in the way of money or power, or authority over other people; you have yet to learn that God thinks otherwise. "Whosoever would become great among you shall become your first minister, and whosoever would be first among you shall be servant to all." When you have grasped that truth you will begin to understand what the kingdom, the reign of God, really means, and the conditions that must be fulfilled by those who would hasten its coming. For "the kingdom of God is within you".

'What our Lord wanted to impress upon them was that God's kingdom is the product of spiritual forces operative within the hearts of men and women. Or, as St Paul says, "The kingdom of God is not eating or drinking" – nothing so material as that – but "righteousness and peace and joy in the Holy Ghost." '

Think Less Materialistically

'If our Lord's disciples in the first century had to be taught to think less materialistically, and not to worry overmuch about secondary things, may it not be so with us today? Let us by all means dream dreams and see visions of a better world; but what right have any of us (whatever our political opinions) to anticipate the coming of a golden age, or the building of a better England or a better world, except on the terms and the conditions laid down by our Lord nineteen hundred years ago?

' "Seek ye first the kingdom of God and his righteousness" and then – and not till then – will the other things that we need be added to us.

'We sing about "building Jerusalem in England's green and pleasant land"–but we are apt to forget what Blake had in mind when he penned those familiar words. He was thinking of the Holy City, new Jerusalem, of which we read in the Book of Revelation. This Jerusalem of which Blake sang was no mere human structure, devised and planned in the brains of politicians and economists and reproduced in a series of reports and blue-prints. What Blake saw was the Holy City coming down out of heaven from God. It was God's creation – not man's. Similarly, the Jerusalem of our dreams, a world-wide society of peace-loving peoples, cannot be built of bricks and

Pausing for a talk in the grounds of Westminster Abbey after the Special Congress Service on Monday morning are (*from left to right*) Mr and Mrs J. Love from Dublin, Mr and Mrs H. F. Bell from Northern Ireland, and Mr U Maung Maung from Burma

Among the oversea visitors who were greeted by The Very Rev Monsignor C. C. Collingwood at Westminster Cathedral on Monday morning were Mr and Mrs J. William Hope (U.S.A.), Mr and Mrs Emile Beauvais (Canada), Mr and Mrs Patrick Williams (New Zealand), and Mr and Mrs B. Paul (France)

mortar or of any material things. It will be built of living stones, that is, of men and women whose minds are akin to the mind of Christ, whose standards are His standards, and who find their perfect freedom in the service of God and in obedience to His righteous laws.'

Importance of the Moral and Spiritual Factors

'That, I submit, is one of the truths which the bitter experience of the past few decades has brought home to the consciousness of thinking people in many parts of the world. The importance of the moral and spiritual factor both in public and in private life is in these days dawning upon the minds of many who in the past have dismissed Christianity as an irrelevance. In these post-war days it is becoming increasingly clear that religion, and the moral standards that go with it, so far from being a private affair between the individual and his God, are a public concern of the most far-reaching importance. For what will determine the future of this and every other country is not how much money we get per day, or how many hours we work per week, nor yet how many gadgets we are provided with in order to make life easy and comfortable: what will determine the future is the character of men and women – that is to say, how people like ourselves behave; what spirit and outlook we manifest in the ordinary activities of daily life.'

Lord Plender's Views

'In the great profession to which you belong you are brought into close contact with a large variety of people of one sort or another, and I do not doubt that you would agree with what that great accountant, Lord Plender, once said, when speaking at a dinner in the Mansion House about the City of London:

'"What is the key to the position which the City holds? Not entirely its command of money, its stock of gold and its unequalled resources; not entirely its position as a great shipping, railway and distributing centre; not entirely its embrace – wide and comprehensive as it is – of banking, commercial and financial institutions; but more than anything else its credit, its honouring of obligations, its fulfilment of contracts. But credit is not a flower that blossoms untended, it has to be watched day by day, shielded from blighting winds and storms. And this great asset – the greatest which the City can have – is but another word for character, the highest virtue man can possess, and without it little else matters."

'What is true of the City of London is true everywhere.'

A Sense of Insecurity

'We are living in an age of revolution, the most disturbing feature of which is the prevailing sense of insecurity. This arises from the fact that immense power has been seized in the modern world by men who openly repudiate the Christian God and the Christian way of life. They dismiss the idea that there are any absolute standards of right and wrong based upon the laws of God as Sovereign Ruler of this universe for they do not believe in God and have therefore no fixed standards except those dictated by the expediency of the moment.

'So long as this materialistic philosophy prevails over large areas of the world, mutual trust and confidence is impossible, and the prevailing sense of insecurity will continue to bedevil our lives and frustrate our hopes.'

The Thoughts and Acts of Men

'Religion then, is, as I have said, a concern of the utmost public importance. It matters supremely how men think and act, and experience proves that what we are and what we do depends in the long run upon what we believe about God and about man. Leave God out of account, treat Him as an optional extra or a mere appendix who has nothing to do with politics, or industry, or social life, and the result will be – indeed, the result has already been – the chaos and confusion with which we are surrounded today.

'Your presence here today in this ancient place of worship is, if I am not mistaken, an indication that you are keenly alive to the vital importance of these intangible things – the things of the spirit – which determine the quality of all human life, and on which the whole future of mankind depends.

'Therefore, "Seek ye first the kingdom of God and His righteousness, and all these things shall be added unto you."'

SOLEMN HIGH MASS

Westminster Cathedral

Solemn High Mass in Westminster Cathedral on Monday morning was attended by about 100 members of the Congress.

After the service many of the members took advantage of the kind invitation of the Administrator of the Cathedral, the Very Rev Monsignor C. C. Collingwood, to be taken over the Cathedral and to see for themselves the dignity and beauty of architecture that has rightly won such renown.

THE PRESIDENT'S OPENING ADDRESS

The important role played by the accountant in the modern world of changing monetary values, heavy taxation, and capital development under difficult circumstances, was stressed by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., the President, in his opening address to the Congress on Monday afternoon. He said:

It is my great privilege on behalf of the sponsoring bodies of qualified accountants in Great Britain and Ireland to welcome you all to this International Congress. Some of you have come great distances – some from foreign parts and some from the British Commonwealth overseas; some by yourselves and some with your families and friends; and there are many of you, members and students of the sponsoring bodies, who have come partly on your own account but also, I am sure, with intent to help in the welcome we offer to our visitors.

It may then be of interest to you to know, however roughly, the numbers and categories of those attending the Congress. Judged by the tickets issued, we are a total of 2,510, made up as follows:

	Members	*Ladies and Friends*
Sponsoring bodies	1,450	494
Commonwealth accountancy bodies overseas	196	64
Other accountancy bodies overseas	668	196
Students	196	–
	2,510	754

There are representatives from ten territories of the

British Commonwealth and from twenty-three other countries. I should be rash indeed if I attempted to assess the antiquity or the relative size or importance of the various accountancy bodies here represented. Suffice it to say that, so far as the sponsoring bodies are concerned, our oldest is the Institute of Chartered Accountants of Scotland, whose earliest Charter dates from 1854. We are, however, brought up in this country to believe that the first association of accountants of which a record exists was founded in Venice in 1581, but at that point one may get controversial, so I will not pursue the theme further. At any rate, in our present form we are a comparatively young profession.

I wish to stress that it is the most earnest desire of all the sponsoring bodies that our visitors shall be made to feel completely at home. We have endeavoured to ensure this by our various arrangements and personal contacts, but should anyone at any time wish for assistance or for company, I hope he or she will not hesitate to approach me or any member of our various committees. I emphasize this as my opening remark so that in case any of our plans miscarry, you may know that both the remedy, and will to welcome, are available.

The First Congress

This is the sixth of these International Congresses, and it is perhaps interesting to recall where and when the others were held. The first was in 1904 at Saint Louis, and the others at Amsterdam in 1926, New York in 1929, London in 1933, and Berlin in 1938.

I have no doubt that some here today have attended several of these earlier Congresses. I have myself read papers at two of them and know, therefore, from experience how much we are indebted to all those who have taken the trouble to prepare papers for our edification this week. It is a much easier and much more pleasurable task to act as President.

I cannot hope to refer by name to all our distinguished visitors, and it would be invidious to try. You would, however, I am sure, expect me to give a special welcome to anyone who attended the first Congress. I only know of one such, though if there are others I should like to be informed. We are proud indeed to have with us Mr G. O. May, who was present and took a leading part in 1904 both in the organization of the Congress and in the reading of a paper prepared by one of his partners. Mr May is well known to accountants the world over, and I am glad to say a frequent visitor to his old homeland. We much appreciate the compliment he pays us in honouring us with his presence.

Having opened our Congress with Services at Westminster, the remaining functions may be divided broadly into those of a social and those of an educational nature. He would be a bold man who would venture to assess the relative values of each, but in the presence of the ladies who have been good enough to join us, it is perhaps fitting that I should first mention the social engagements. I very much hope you will enjoy all the arrangements which have been made, and I assure you that it is our intention and hope that you should take back with you the happiest of memories.

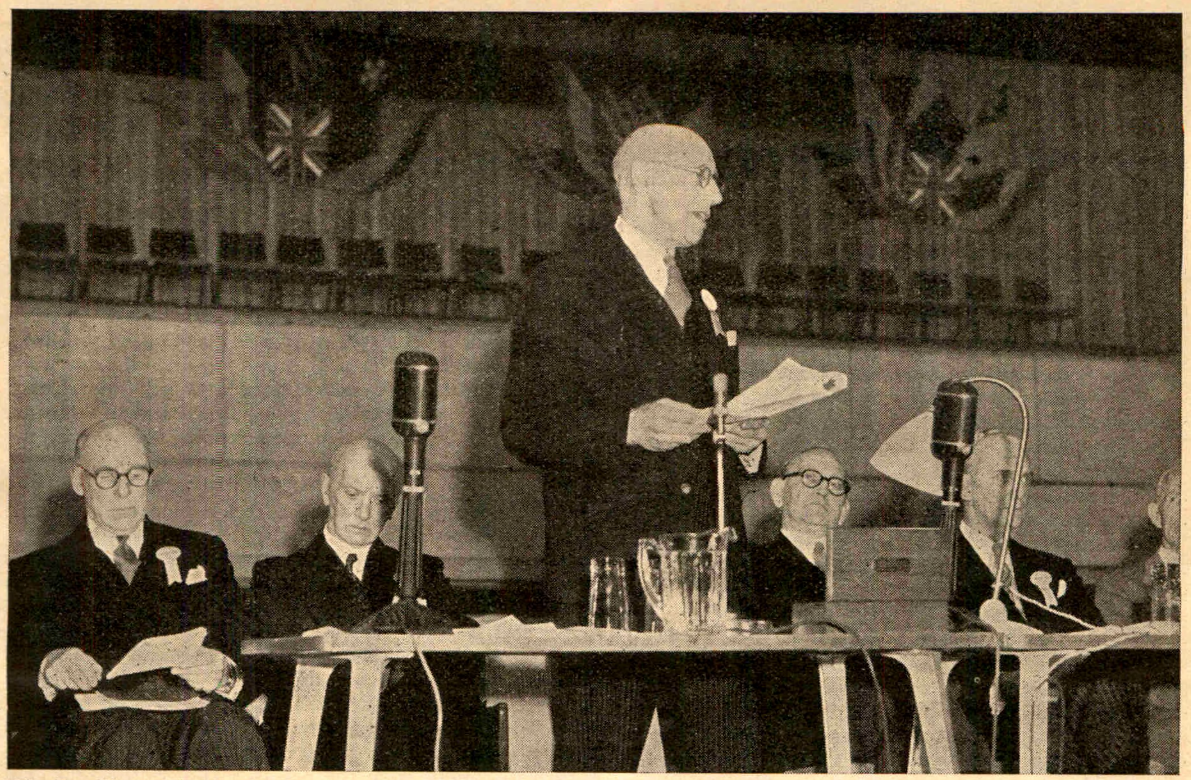
On the educational side, the selection of papers is designed in order to collect ideas on some of the pressing subjects of the day. I suppose each succeeding generation thinks it has been born to face the most difficult era in history and perhaps, if progress is to mean something more than taking life more easily, this is natural and is to be expected. It is certainly true of accountancy, which indeed would not be much of a profession if this were not the case.

Apart, however, from the formal conferences, at which admittedly it is difficult to arrive at agreed conclusions, I hope that much use may be made of this week for private discussions – not only on the subjects covered by the papers, but on others, and also on the relationship of accountancy bodies with each other the world over. It is common knowledge, and it is natural, that on occasion there should in all countries be a conflict between the interests of nationals and of those from overseas. If we can do anything during this Congress or afterwards to resolve our respective problems I am quite sure the sponsoring bodies would be very happy to try. I am also sure I can speak for them in saying that we shall welcome visits by any of you to our various headquarter buildings, where contact with our chief executives will provide that personal touch which so often helps in subsequent discussions. So far as concerns this country, whilst the sponsoring bodies are, of course, bound by the terms of their various documents of incorporation as to admission to their own membership, there is no restriction against those from overseas in respect of practice or employment; and only in regard to the audit of certain companies is there the statutory requirement that the auditor in question shall have proper qualification such as membership of a responsible overseas body.

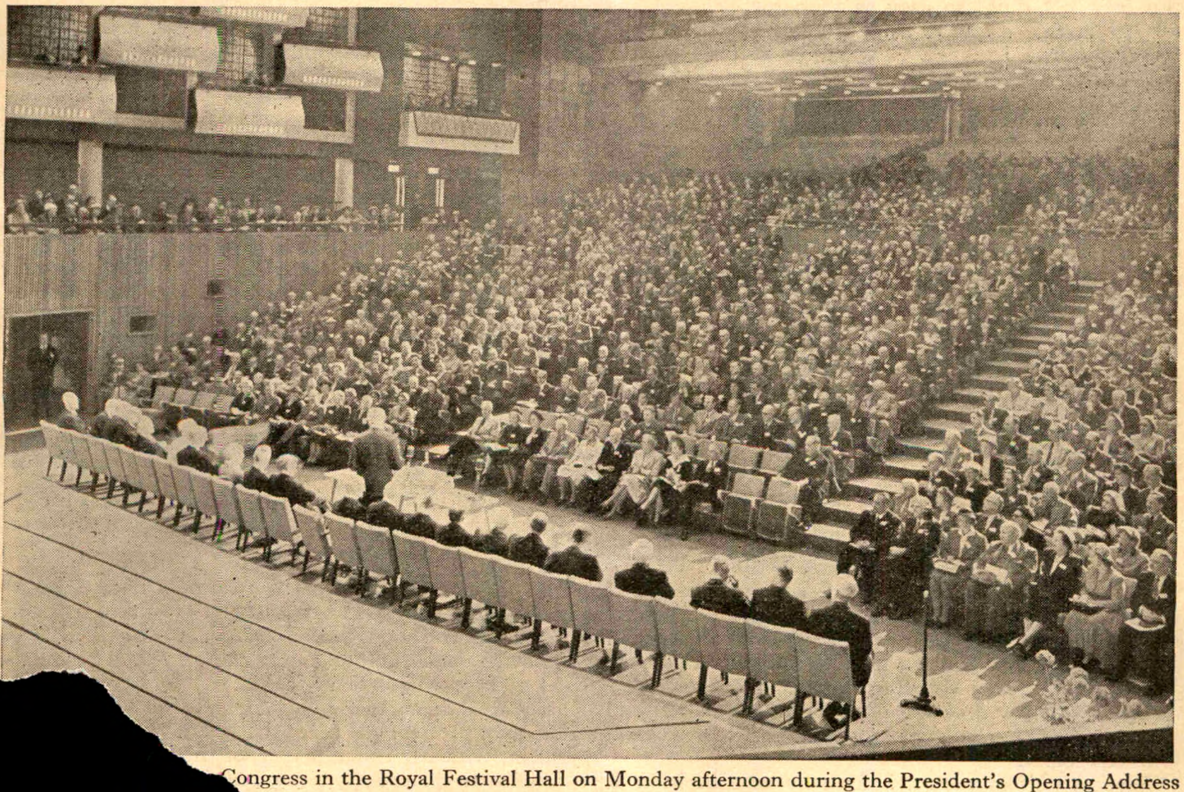
The Changing Scene

I have run my eye over the proceedings of the earlier Congresses and cannot help reflecting how much the scene has changed, even within the limited span of life which they cover. In 1904 we lived in comparatively stable times. We all had our upheavals, no doubt but we were able to take them in our strides and recover from them. They were more local than world-wide. They left us able, and indeed obliged, to look after our own destinies and we worked to simple and well-understood economic rules. Due largely to the advent of wars, to the march of science and to the ease and speed of communication, all this is changed, and not in all respects for the better.

If I were to attempt to review the special features facing accountants gathered for the present Congress, I would emphasize the following points. First, although all countries represented here today have, in varying degrees suffered from changes in the value of money, we have not yet reached agreement as to how this problem is best dealt with in periodical accounting statements. Secondly, although taxation is no new subject, it is today so heavy in most countries that the State is, in effect, the major partner in enterprise; and it is probably true to say that without the help of the professional accountant and the trust imposed in him, the State revenues could not be raised, and Government, therefore, could not function. Thirdly, the difficulty of raising or retaining capital for development or even for existence is materially enhanced by these two factors. Fourthly, whereas the accountant in public practice has to direct his thoughts, and certainly his certificates, primarily to the past and to the present, the professional accountant who has entered the commercial field, and indeed the practising accountant who helps him therein, thinks even more of the future.



The President, Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., delivering his Opening Address on Monday afternoon. *Seated, from left to right:* Mr H. Garton Ash, O.B.E., M.C., F.C.A., Sir David Allan Hay, K.B.E., J.P., C.A., Mr C. Percy Barrowcliff, F.S.A.A., Mr A. Stuart Allen, F.S.A.A.



Congress in the Royal Festival Hall on Monday afternoon during the President's Opening Address

Selection of the Papers

It will not have escaped your notice that the selection of papers for this Congress has been made with these special features of the accountant's responsibilities chiefly in mind. I hope the papers so carefully prepared, and the discussions on them, will contribute materially to a clarification of the problems involved. As a background – perhaps as a relaxation – I commend to your attention the historical exhibition of books on accountancy which has kindly been arranged by the City Authorities at Guildhall.

I feel, at this stage, I should perhaps offer a word of apology that, for reasons beyond the control of the Congress staff, the papers and programmes did not in all cases reach overseas delegates and visitors before they left their homes. Even if this may have enabled them the more to enjoy their journeys, I realize it may have imposed on them an added burden of reading on arrival here.

Progress there must be in the help given to management, in mechanization and other improvements in accounting technique, in methods of audit and in the form of presentation of final accounts, and yet the twin purpose of these final accounts remains the same as it always has been, namely to show whether and to what extent a surplus or a deficit has accrued over a period of time, and to show the financial position at the end of that time. We claim no magic for our art. It is as old as the hills and both nations and individuals are, in the long run, subject to its inexorable laws. If I may use an expression of our friends from France, and if they will excuse my pronunciation, *plus ça change, plus c'est la même chose.*

'True and Fair'

But it is not quite so easy as that, for although, as we say in this country, the object of accounts is to present a true and fair view, different people have different views as to what is 'true and fair', and the ends they seek to achieve are often conflicting. We are, in consequence, subjected to requests that accounts should serve many purposes, perfectly legitimate in themselves, but not always capable of being reflected in the same document. I refer to requests as diversified as those from proprietors, temporary investors, wage-earners, creditors, economists, tax collectors and even politicans; and I am not forgetting the special requirements of Government accounting, whether central or municipal. It is not surprising that a single form of accounts cannot stand the stresses involved in attempting to satisfy all these interests. The difficulty has recently become much accentuated by inflation and high taxation. I must not, however, at this stage anticipate the discussions which will arise on these contentious issues.

Apart from attempting to hold the balance fairly between contemporary interests, such as I have mentioned above, correct accounts should have also in mind their effect on succeeding generations. I mention this because in periods of intense financial strain, such as we are at present experiencing, there is a risk of taking the easy course and of passing on to posterity liabilities against which we ought ourselves to provide. I refer in particular to pension obligations which tend to be taken on light-heartedly, whether by governments or individuals, and with no real assurance that posterity will foot the bill. On the other hand, it may be said that this generation, having borne the cost of two wars, is being too kind to the future in endeavouring to replace its assets at inflated costs out of resources which might otherwise have been distributable. Accountants must endeavour to apply sound and impartial judgment to such issues and not to be influenced by political considerations one way or the other.

Our Growing Numbers

I doubt if any other profession has increased numerically as ours has done over, say, the last half-century. I hope the quality of our work has kept pace with our growing numbers and though it is not for us to appraise ourselves in such a matter, it is perhaps a fair test to mention that the demand for our services has never been so great. The demand comes for professional services and also for the supply of our members for Government, industrial and financial appointments. It is the privilege of the profession to supply members for these specialized demands, and in turn to benefit from the research and professional skill which they promote in those surroundings. One of the main objectives of a Congress such as this is to stimulate the search for an even higher technique in all branches of the accountant's work.

I cannot help recalling that the last Congress in Berlin was held almost on the eve of war. It is sad to reflect that although the tragedies of two world wars are within the memories of most of us, we do not even yet seem to have learnt our lesson. Is it too much to hope that a gathering such as this, of peoples from many countries exchanging ideas in common, and understanding each other's points of view, even when we differ, may be some small contribution to that peace and fellowship which we all so ardently desire? Is it presumption further to hope that qualified accountants throughout the world should have a material influence towards right thinking on all those financial and economic problems which are normally at the root of international disputes and wars? If such hopes are even partially justified, a Congress of this nature must be abundantly worth while, quite apart from any progress it may achieve in the technique of accountancy and quite apart from the pleasure it gives the sponsoring bodies to meet our friends from overseas.

CONGRESS RECEPTION

Over 1,800 congress members and their ladies attended the reception at the Royal Festival Hall on Monday night and were greeted by the President, Sir Harold Howitt, and Lady Howitt, and Mr C. P. Barrowcliff, Vice-President, and Mrs Barrowcliff.

The attractive flower-banked floor was soon well filled by couples dancing to the music of Carroll Gibbons' band.

Foreign visitors were delighted by an exhibition of Scottish country dancing by members of the Royal Scottish Country Dance Society in evening Highland dress. Their leader, Miss Maclennan, described each colourful dance before it was performed. The music was by Pipe-Major Peter Quinn.

Square dancing then followed, and after a
tion by a professional team the guests w
join in, with Mr David Miller, of the
Ballroom dancing continued u

FLUCTUATING PRICE LEVELS IN RELATION TO ACCOUNTS

First Business Session

Mr T. B. Robson, M.B.E., M.A., F.C.A., President of the Institute of Chartered Accountants in England and Wales, who presided at the first session of Congress, which discussed 'Fluctuating Price Levels in Relation to Accounts', said that the subject had given the profession more food for thought than perhaps any other in recent years.

He was sure that everyone looked forward to the benefits which would result from a full and frank discussion.

He introduced the deputy chairmen, Mr J. William Hope, C.P.A., President of the American Institute of Accountants; and Dr Ing. Otto Bredt, of the German Institute of Accountancy; the rapporteur, Mr A. C. Velling, of the Danish Association of Chartered Accountants, and the twelve Congress members from eight countries who had contributed to the paper.

SUMMARY BY THE RAPPORTEUR

The rapporteur, Mr A. C. Velling, Föreningen af Statsautoriserede Revisorer, Denmark, then delivered his summary of the papers, as follows:

On the subject of this morning's proceedings eight papers in all have been submitted and the task has fallen to me of presenting a summary thereof.

It is not possible, in the short time allowed me, to do justice to the wealth of information and comment, of observations, opinions, and conclusions contained therein. I can but point to some of the main lines of thought and argument.

Fundamental Questions

Each in their own way, the authors have dealt with various fundamental questions: money as a measure in accounts; the purpose of accounts and financial statements; the difference between temporary fluctuations of prices, and permanent changes in money values the theory underlying historical cost; and others But the weight of argument centres round the criticism directed against existing accounting conventions, and the various measures evolved for the production of more satisfactory accounts.

The critics charge that in times of rising prices existing accounting conventions fail to provide adequately for the replacement of assets consumed; thereby causing profits to be overstated. The result is excessive taxation and payments of dividends with a consequent depletion of capital resources. In defence, it is stated that accounting should be objective and concerned with facts, not estimates; that historical accounting being well established and well understood, any alteration of practice would only cause confusion, the more so as there does not seem to be any agreement as to what procedure should take its place.

Necessity for Some Change

The criticism has, however, resulted in various corrective measures being suggested. As outlined by the authors of the papers submitted, they are generally (*a*) the use of replacement costs; (*b*) an adjustment of historical costs; (*c*) various methods, partly of a fiscal nature, for dealing with depreciation of fixed assets; (*d*) special methods for dealing with inventories; and (*e*) a revaluation of assets. In reviewing these measures, the contributors do not contend that no change should be made in conventional accounting. On the contrary, they are all agreed that some change is necessary. They differ only as to the extent and degree thereof.

Much argument revolves round the theory of replacement costs, a term that, according to Professor Graham, has no precise meaning and therefore is liable to be variously interpreted.

The idea behind the theory is that depreciation should be computed on the current or replacement value of the fixed assets and that stock usage should be calculated on the current costs of stock. Costs and revenues should be matched on the same level.

The theory is opposed chiefly by Professor Graham Mr Hiley, and Professor Wimble. A principal objection would seem to be the difficulty of determining the appropriate replacement values to be used. Merchandise stocks are liable to undergo considerable change over a period of years. Fixed assets are not always replaced in kind, and technological improvements exert an influence that cannot be measured. Even if replacement is made, at what price level will it be effected? And if specific replacement costs are used, there is the added difficulty of handling the multitude of costs involved. The critics, while conceding that replacement costs may be important for some purposes, contend that for the purpose of reporting profit the theory is impracticable; difficult to apply with a degree of accuracy sufficient to inspire confidence; or, even, that it is so divorced from reality as to be worthless in all but exceptional circumstances. In the opinion of Mr Wilcox, the strictly literal application of the theory has for these reasons not found much support.

Depreciation Based on Current Replacement Costs

Mr Barrowcliff, on the other hand, holds the opinion that in the measurement of profits, depreciation should be based on current replacement costs, and thinks that in many cases specific replacement values may be determined without undue difficulty. Should this prove impractical, it should at least be possible to apply a percentage figure of increase based on various known costs. The same type of principle should, logically, apply also to inventories; but as we are in a situation where there is a possibility of a fall in the price level, and as inventory profits have by now been largely absorbed in published reports of profits, it might be unfortunate if a change in method were now made. In the preparation of the balance sheet, existing conventions of original cost should be adhered to.

Mr Goudeket's paper is a condensed exposition of, and strongly supports, the theory of replacement costs

which would seem to have found favour amongst accountants in the Netherlands. The criticism of impracticability is, in Mr Goudeket's opinion, largely due to a lack of modern accounting equipment. It is, however, not a question of arithmetical exactness, but only of such a degree of accuracy as will do justice to the economic principles involved. To that end, Mr Goudeket considers that the use of standard costs will prove an acceptable solution where stock valuations are concerned, similar methods to be used in dealing with depreciation of permanent means of production.

'Substance Maintenance Reserves'

Replacement costs have found favour also in Germany, and the paper by Professor Dr Hax, Dr Knorr and Dr Meier demonstrates through practical examples the calculation and elimination of unearned, or sham, profits and losses from the income accounts, such profits being shown in the balance sheet as special 'substance maintenance reserves'. At the same time, it is emphasized that as long as fiscal authorities do not recognize the procedure, it cannot by itself provide any protection against excessive taxation.

In France, on the other hand, it is the fiscal authorities who have taken the lead in the use of replacement costs by providing definite rules, based on index figures, for calculating replacement values both for stocks and fixed assets. In their paper, M Lauzel, M Poly and M Cibert explain the working of the French fiscal system, mentioning also various other methods that have been suggested, and pointing out that the difficulty of reconciling the fiscal rules with those of traditional accounting imposes conflicting demands on the accountant.

Several of the contributors have referred to the case where insufficient provision for depreciation of fixed assets may have been made in previous periods. In Mr Goudeket's opinion, this must of necessity be corrected before there can be any question of stating profits. Mr Barrowcliff, Mr Hiley, and Mr Wilcox are all opposed to this, pointing to the resulting distortion of annual accounting; Mr Barrowcliff further contending that it does not fall into the requirements of measuring profits that earlier deficiencies should be provided in a period when they did not occur. Such deficiencies are in the nature of capital losses and should be dealt with by appropriations of profit where circumstances permit.

Adjusted Historical Cost

Professor Graham, in his paper, refers to adjusted historical cost, a method recommended by the American Accounting Association's Committee of Accounting Concepts, of which he was chairman. While it is advisable that financial statements should continue to reflect historical cost, it is unsatisfactory if they ignore the changing value of the monetary unit. To that end, historical costs should be adjusted to current cost basis by the application of a broadly accepted index of general prices, the resulting information to be shown in supplementary statements. While the ultimate goal should be the all-inclusive adjustment of all items on the financial statements, this is not practical at the present; but adjustment for the income statement of depreciation and cost of goods sold could with advantage be introduced immediately. In an appendix to his paper, Professor Graham has outlined tentative suggestions for procedures t employed in making such adjustments.

'Index of Inflation'

Professor Wimble is also strongly in favour o adjustment of historical cost by means of an 'ind inflation', comparing the procedure to that of the version of foreign currencies by means of rat exchange. In an appendix to his paper, Prof Wimble has shown the practical application of co sion to a full set of financial statements, showing also the figures obtained by means of the usually advocated principles of replacement accounting.

In the papers submitted, reference is made to various methods dealing specifically with depreciation of fixed assets. While partly of a fiscal nature, they have been used also in the preparation of financial reports. Initial depreciation has been tried out in Australia, but has, in the opinion of Mr Hiley, resulted only in serious distortions of accounting conclusions and is now in process of abandonment. Mr Wilcox mentions accelerated depreciation as having received acceptance in the United States, also in the preparation of financial statements for public use; pointing out the inherent defect that the resulting smaller depreciation charges in subsequent years might well defeat the original purpose.

LIFO

From the United States has come the LIFO inventory method dealing specifically with merchandise. It is not a departure from historical cost but makes use of the convention that the last merchandise to come into stock may be regarded as the first to go out. While originally deemed to be appropriate only with certain limitations, it would appear from the paper presented by Mr Wilcox that LIFO is now being used more extensively, and that there is a growing body of opinion to the effect that LIFO represents a basic concept of income. In the United States, generally accepted accounting principles do not prohibit its use in preparing primary financial statements.

Mr Barrowcliff observes that for balance sheet purposes LIFO would not be appropriate in Britain as it shows an under-valuation of realizable assets. For that same reason it is criticized also by M Lauzel, M Poly and M Cibert. Mr Hiley and Professor Wimble are opposed to the LIFO theory of a basic stock. Mr Hiley points to the loss of protection and the consequent distortion of profits that would result from inability to maintain this stock. Professor Wimble, while conceding that LIFO may have its uses, contends that where stocks are constantly turned over, a system that pre-supposes that a basic stock is held but never used, cannot truthfully record that which has actually happened.

In the opinion of Mr Hiley, none of the suggested methods provides a complete solution, and all of them tend to distort accounting conclusions. While there are sufficient grounds for a fresh basis for accounting values the correction should be applied, not as a continuous process but as a single measure. A complete revaluation of all assets should be undertaken only at such time as a new price level may have become stabilized, and depreciation should be based upon the revalued figures thus obtained. To be effective, it should be applied simultaneously and universally within each currency area. The valuation surplus should not be subject to taxation. In the case of joint-stock c

panies, tax-free bonus shares should be issued to shareholders, a method already used, and in favour, in Australia.

Revaluation Reserve

A revaluation of assets is used in France as part of the fiscal provisions. While originally applicable only to a single year, it has later been extended to subsequent years. The revaluation is optional, and it is limited to certain types of assets, including fixed assets, investments and balances receivable and payable in foreign currencies, but excluding stocks, work in progress and balances receivable and payable in French francs. The valuation surplus is shown in the balance sheet as a 'revaluation reserve'. M Lauzel, M Poly and M Cibert express the opinion that the revaluation of assets should be general and compulsory, progressing by sections in decreasing order of usefulness.

Official Attitudes

In conclusion, it is appropriate to refer to the official attitude of responsible organizations of accountants. While no definite pronouncements are quoted, I understand that the principles of replacement costs are generally accepted in France, Germany and the Netherlands, although there may be some discussion as to details. In Britain, The Institute of Chartered Accountants in England and Wales has pronounced against treating provisions for the replacement of assets at enhanced costs as charges before profits; and in the United States the American Institute of Accountants has made a similar pronouncement in respect of depreciation of fixed assets. The official attitude in Australia would appear to be the same as in Britain.

I have endeavoured in this survey to give a brief summary of the main lines of thought and argument as I see them. If in doing so, I have unduly condensed, or inaccurately reported, views and comments, as expressed by the writers of the papers submitted, my apologies are due to them and to this Congress.

GENERAL DISCUSSION

In the general discussion Dr Ernest Knorr, of Germany, said accountants in his country would agree in the main to the recommendation by The Institute of Chartered Accountants of England and Wales that historical costs should be the basis on which annual accounts were prepared.

'But', he went on, 'we would prefer replacement costs being the basis of stating the annual accounts, so far as current assets are concerned.'

Dr Knorr added that a draft law had been submitted to the German Government under which it would be possible to establish reserves on the basis of replacement costs for current assets.

A note of warning was sounded by Prof Scott, of the United States.

'If we as accountants', he told the Congress, 'hold to a fixed notion of accounting and undertake to treat new problems outside of a fixed system, the inevitable result, sooner or later, will be that the outside exception will become the rule.

'Tail Wagging Dog'

'It will be a case of the tail wagging the dog.'

Prof Scott then turned to the conflict which existed among accountants in this problem of fluctuating price levels.

'The nature of the conflict', he declared, 'is essentially one between tradition and the growing science of accounting. The doctrine of historical cost which represents tradition is a defensive, restrictive device.

'When we have abandoned the doctrine of historical cost – as we surely shall in the course of time – we shall find that the problem we are discussing here will have ceased to exist.

'It will', added Prof Scott, 'have been absorbed in the problems which we are now developing in cost accounting.'

Clear Picture Needed

Mr O. Birley (Great Britain and Ireland) suggested: 'Let us look clearly at an industry or undertaking and report on it not merely on the figures in the balance sheet.

'Let us say precisely what its particular assets are worth and when we have done that we can go to the statistician, the economist and to members of the community with a clear picture of what is happening.'

The formulation of a code of international accountancy practice was suggested by Mr F. L. Bouly (France). He wanted a committee of accountants established in each country which could put forward suggestions in the form of resolutions to an annual meeting of an international council of accountants.

Suggestions endorsed by the council might then come into general usage and obtain official recognition.

Dealing with replacement costs, Mr S. J. Broad (U.S.A.) caused laughter when he declared, 'We do not know where the goods are to be replaced, when or whether they are to be replaced at all.'

Old Principles Sound

He believed that replacement costs should be calculated by applying a price index to the original cost of the plant.

Mr R. D. Brown (New Zealand) thought that the principles and standards which had guided accountants in the past were perfectly sound today.

'It is significant that in my country the first paper issued by our recently established Accounting Practices Procedure Committee is one dealing with this very subject,' he said. 'It illustrates clearly that the farthest away business community in the world does not escape the factor of rising prices and inflation.'

The problem could be approached from various aspects, said Mr P. F. Brundage (U.S.A.). It was the accountant's responsibility to present accounts as clearly and in as informative a manner as possible. It was a case of 'adding together apples, pears and bananas and expressing them in some common medium'.

Government 'Arch-Debtor'

A powerful contribution to the discussion was made by Mr J. Clayton, a British delegate, who declared that now, at the point where the results of 'factual accounting' were seeing the light of day, it was proposed 'we should abandon objectivity and present those results adulterated by speculation and conjecture'.

Government, he said, was the arch-debtor in civilized society and inflation represented the expropriation by the debtor of the creditor.

It was not this aspect of inflation that the advocates of the new accounting sought to redress, nor was it to show the role of tangible assets as a 'hedge' against inflation – except, significantly, to the extent that this 'hedge' was lost by the assets being absorbed in production.

'Could there be any more violent departure from objectivity', asked Mr Clayton, 'than the proposal that fixed assets should be carried in the balance sheet at historical cost, but charged to profit and loss account at "current" or at "replacement cost"?'

Two Simple Facts

Nor did the advocates of the new system seek tax concessions for those who had suffered from inflation.

Mr Clayton went on, 'Two simple facts emerge from this controversy.

'First, taxation on its present sweeping scale is crippling the economy of many countries and, secondly, currency units are, as ever, losing their purchasing power.

'The former calls for a pruning of taxation and the latter for a reconsideration of currency units.'

However, neither of these salient facts justified a departure from that objectivity in accounting which was 'enshrined in the motto of our Institute'.

'The "replacement cost" and "current cost" concepts do not withstand factual examination and cannot become viable alternative systems of accounting to the traditional historical cost method.

'They are', Mr Clayton ended amid applause, 'no more than fig-leaves with which the results of factual, objective historical accounting are dissembled.'

Mr C. L. S. Hewitt (Australia) did not agree that there was a choice to be made between existing conventions and the new, which he regarded as supplementary.

Money a Yardstick

There was laughter when he added: 'I, as a consumer, would much prefer that I should pay a price calculated in accordance with existing accounting conventions.'

Commenting on the effect of ten years of inflation, Mr L. Kennett (Great Britain and Ireland) said: 'There appears to emerge a general concensus of opinion that the monetary unit has ceased to function as an efficient and reliable standard of values, and where money stands in the accounts to represent real goods, its function is to serve as a yardstick.'

Even if inflation could be stopped there was no reliance in the present economic climate that it would not be resumed again, he said. Therefore, there was no virtue in delaying a reform which many accountants felt was long overdue.

The effects of inflation should be indicated by an adjusted set of accounts or a supplementary statement, said Mr E. R. Kermode (Great Britain and Ireland).

Mr A. MacBeath (Great Britain and Ireland) pointed out that for decades accountants had been searching for an acceptable solution to this problem. 'It is now unlikely that they will find one which will please everybody' he declared.

Fundamental Aspect Ignored

The opinion that not enough stress had been laid on 'the root of all our troubles', inflation itself, was expressed by Mr F. R. M. de Paula (Great Britain and Ireland).

In the main the papers submitted had ignored this fundamental aspect of the problem and concentrated on the 'arguments for and against the ancient principle of historical cost'.

The only congress member to be associated with the first Congress in St Louis, in 1904, Mr George O. May (U.S.A.) wanted to see the role of the accountant – comparable to that of nurse rather than physician – changed.

'If the accountant thinks that the patient-investor is suffering from the effects of inflation he must be free to say so and not put the responsibility on to management', he said.

'I realize how much stronger the accounting profession is today than when I joined it in 1892, and I think it should assume greater responsibility.

Great Task Ahead

'Accountancy has reached the age when it can revise tradition in the light of reason, and this is the great task which faces us in the future.'

Others who contributed to the discussion were Messrs W. H. Lawson (Great Britain and Ireland), J. de Jong (Netherlands), L. R. Duchesne (France), F. Antolini (Italy), A. Grandell (Finland) and S. K. Ojha (India).

Summing up the discussion, Mr Barrowcliff said that the present conventions would not have been in existence at all if there had not been price stabilization.

'If', he said, 'we had had fluctuating price levels in the early days of the accountancy profession, we should certainly have had to face the fact of the fluctuation changes and adapt our conventions to the conditions then existing.'

He would suggest, therefore, that the existing conventions arose mainly because of the stability of the price level.

The Personal Opinion

Answering a criticism that personal opinion might in certain circumstances take the place of fact, he declared, 'Our present depreciation is based, I agree, on the historical cost, but there is a personal opinion in judging the useful life of plant. That is a pure matter of opinion.'

Fundamentally, business was a continuing enterprise said Mr Barrowcliff. Accountants had not only to recognize that fact, they had also to apply it in practice, to implement it in the accounts they produced.

'Continuity', suggested the speaker, 'surely means just what it says. It means preserving, at any rate, the physical assets of the concern. If we are content to allow exhaustion of the physical assets over a period of years, then it simply means that the concern will completely go out of business unless fresh capital is produced.'

'Of One Mind'

Therefore, continuity implied the preservation – intact – of physical assets, and that in turn meant the corrected measurement of the earnings of the undertaking.

'I feel that is the crux of the whole problem,' declared Mr Barrowcliff. 'I disagree that it is only a

matter of taxation, for there is much more to it than that.'

Turning to the differences of opinion among accountants generally, he emphasized that fundamentally all of them were 'of one mind'.

'We are trying seriously to find the right conclusion', he said, 'a conclusion which can have lasting effects. We certainly do not wish to go into anything that will be transitory, which may have to be altered. It has to be some principle which will withstand the strains of whatever the circumstances may be.

'That is the whole case for advocating the change in our existing conventions – that they have not stood up to the strain of prevailing conditions. It does seem to me that our existing conventions do not meet the position. I hope that we shall be able before too long to convert you to that point of view.'

The speakers were thanked by the two deputy chairmen.

ACCOUNTING REQUIREMENTS FOR ISSUES OF CAPITAL

Second Business Session

Theme of the second session was 'Accounting Requirements for Issues of Capital', and Mr C. Percy Barrowcliff, F.S.A.A., Vice-President of the Congress and President of the Society of Incorporated Accountants and Auditors, presided.

He introduced his two deputy chairmen, M Justin Alexandre, President, l'Ordre National des Experts Comptables et des Comptables Agrées, and Mr Aage Nielsen, of the Danish Association of Chartered Accountants.

There was applause, too, for the three contributors to the symposium, Mr Ian W. Macdonald, of the Institute of Chartered Accountants of Scotland; M F. M. Richard, of the Compagnie Nationale des Experts Comptables, and Mr J. R. M. Wilson, F.C.A. (Canada), of the Canadian Institute of Chartered Accountants.

SUMMARY BY THE RAPPORTEUR

The rapporteur, Mr A. A. Fitzgerald, delivered his summary of the papers, as follows.

The papers to be submitted at this session cover a very wide area. Each of the five papers distinguishes between two main functions of the accountant: one is the function of providing information, the other is the function of advising upon financial structures, financial policy, and prospective earnings.

Mr MacDonald's comprehensive paper, necessarily concise, discusses both functions, as performed by accountants in the United Kingdom; Mr Wilson's paper deals mainly with Canadian law and practice relating to the presentation of accounting information; Mr Birnie describes some of the peculiar features of business finance in New Zealand, and comments on the advisory role of the accountant; and Dr Kæfer and M Richard describe legal requirements and professional standards in Switzerland and France respectively.

Uniformity in Legal Requirements

The papers of Messrs MacDonald, Birnie and Wilson show that there is a substantial degree of uniformity in legal requirements and normal practice in the United Kingdom, Canada and New Zealand. Legal background and standard practice in Australia are modelled on similar lines, and doubtless law and practice in U.S.A. are not markedly different in essentials. So it appears that, in English-speaking countries, accounting for capital-issue purposes is meeting its problems with much the same outlook and in much the same ways.

Dr Kæfer's paper, and that of M Richard, however, bring out sharply important differences, arising partly from legal requirements and partly from a different philosophy of accounting. In English-speaking countries, much greater use is made of independent accounting reports; and the legal requirements are founded upon acceptance of the accounting philosophy of disclosure, consistency and objective expression of opinion.

English accountants doubtless appreciate the extent to which their professional status has been raised by recent legislation, as well as by their own performance. Those of them who, in Mr MacDonald's picturesque phrase, have become 'entangled in the mesh of the most recent Companies Act' may have momentary feelings of nostalgia for the 'good old days' of secret reserves and go-as-you-please balance sheets, and of envy for the comparative simplicity of the company laws of Switzerland and France, as described by Dr Kæfer and M Richard. But Mr MacDonald's and Mr Wilson's papers show conclusively that voluntarily-accepted standards of presentation of accounting information are still in advance of minimum legal requirements, such as those of the United Kingdom and Canadian Companies Acts, or of the regulations of the Ontario Securities Commission, complex and exacting though those requirements may be.

The Accountant as Adviser

Dr Kæfer and M Richard each emphasize, against the legal background, the importance of the role of the accountant as adviser, and this is stressed also by Mr Birnie. M Richard describes the nature of the responsibilities of the accountant as an

> 'adviser appointed by the company or as commissioned representative of the shareholders, compulsorily appointed in accordance with company legislation'.

Dr Kæfer mentions the report of an elected controller which must be included in a Swiss company prospectus. These normal procedures may be compared with the references by Mr MacDonald to special-purpose procedures, such as the preparation of a provisional financial budget for new ventures or the advisory services of accountants in connexion with capital reconstructions or amalgamations of businesses.

Within the field of information-providing services, Mr MacDonald and Mr Wilson both stress the point that accounting reports for capital-issue purposes must be historical and factual, and that the introduction of hypothetical figures should be avoided. For example, Mr MacDonald says that, in deciding whether a transaction is abnormal or has produced an exceptional or non-repeating result, which should be excluded from the record of past earnings, a rigorous test is applied, which few transactions may pass.

Similarly, Mr Wilson says that

'changes in the figures to reflect changes or expected savings are dangerous',

and that

'such adjustments to earnings should ordinarily be avoided'.

Each of these contributors, of course, recognizes the possibility that adjustment of past figures may be necessary in special circumstances. But in this field of reporting to prospective investors, they see accounting as an historical record primarily, and not as predictive.

How Far Back should the Report Look?

The question of the length of the past period of which the history is to be reported is also raised by Mr MacDonald and Mr Wilson. Mr MacDonald says that the report *normally* presents a figure of profit or loss for each of ten years. Mr Wilson refers to the general adoption by accountants in Canada of the ten-year convention, but makes the reservation that this practice developed at a time when the ten-year period reached back into pre-war years and so gave a picture of earnings under peace-time conditions; today it

'dips back into the war years'

and

'it may be that a shorter period would provide sufficient useful information'.

On some other conventional practices, Mr MacDonald expresses uneasiness – particularly the tendency to follow a 'pattern' in distinguishing between two categories of taxation, each based on income, and the usual method of treating 'initial' depreciation allowances and tax relief resulting therefrom.

All the papers refer to the need for the exercise of sound judgment by the accountant, whether he is acting as provider of information or as financial adviser. This need is illustrated by many parts of Mr MacDonald's paper, especially in his discussion of the treatment of depreciation provisions, stock reserves, deferred charges, taxation and directors' remuneration, as well as in his comments on the circumstances in which, and the extent to which, 'abnormal' items should be the subject of adjustment or special reference in the report.

Change in the Sources of Business Capital

Two other points should be mentioned. One is that Mr MacDonald, M Richard and Mr Birnie all draw attention to the change which has come about in the sources of business capital. M Richard calls the change the 'new capitalism, derived from workers' savings'; Mr MacDonald speaks of the growth of specialist financial institutions, 'taking the place formerly occupied by private sources of capital'; and Mr Birnie refers to the importance in New Zealand of investment in business by investment and insurance companies – a new feature which has become important in recent years in Australia also. Evidently this is a widespread change, which may be of great significance for accounting.

The other point is the thorny question of accounting for price-level changes. As everyone knows, this has been the subject of controversy for many years, and it is listed for discussion at another session of this Congress. Little has hitherto been said about its relationship to reports for capital-issue purposes. It is referred to in the papers of Mr MacDonald and Mr Wilson, and M Richard has briefly described the French method of revaluation of 'fixed' assets by means of index numbers.

GENERAL DISCUSSION

France provided the first contributor to the discussion, M F. M. Richard, who put forward a three-point plan for regulating capital issues.

It was: (1) provisions enacted by national bodies of auditors and accountants relating to standards of audit which he believed would prove of great benefit to everyone; (2) reinforcement of legal requirements, not only for public but for private corporations; and (3) an educational programme to convince the public of the necessity for auditors and of their responsibility.

Accountants and auditors should be more than controllers, he urged. They should be a power in the industrial world – the link and trustee between capital and the public.

Mr S. V. Aiyar (India) said that in his country the government had found it necessary, in the light of previous experience of company formation and management, to appoint a committee to go into all these matters and make representations on the 'present unsatisfactory position'.

Profession and Law

Recently the committee had published its report, and it was hoped that, without further loss of time, their proposals would be translated into law.

Here Mr Aiyar emphasized that laws could lay down the minimum requirements needed for, say, the issue of capital – and only the minimum. 'No profession', he declared, 'can make any progress by merely complying with the formalities of the law to the letter.

'It is only by a voluntary acceptance of obligations that the progress of a profession can be measured.'

Mr Carroll (Great Britain and Ireland) regretted that an American paper had not been included in the symposium. Had there been one it would no doubt have enlarged on the question of shares at no par value, of which most people in Britain at least were ignorant.

'Accountants are Trustees'

Dealing with the duty of the accountant, he said: 'We are trustees not only in relation to the public, but of the reputation of the profession. Let us not, therefore, be *ex officio* spokesmen for any other interests.'

The Congress heard a detailed explanation of the conditions of financing laid down by the French Government since 1945 from M F. J. Boutin (France).

He had no doubt that experience at the conference would enable those who had attended to carry out their duties the better and to advise with greater understanding on the problems concerning issues of capital. One of the responsibilities of the profession had not been stressed in the papers, thought Mr Anson Herrick (U.S.A.). 'Our greatest responsibility', he said, 'is not legal or technical. It is the moral responsibility of the profession to take the lead in the establishment of adequate regulations relating to the manner of presentation of information provided to prospective investors.'

In his opinion the profession had so far failed to

take that leadership. 'This', he added, 'may result in the sudden enactment of unreasonably harsh regulations designed on the basis of a political background.'

Mr Herrick appealed to members of the profession in every country to do everything they could to improve the present regulations.

Growth in Importance

Mr Conrad F. Horley (Australia) spoke of the growth in importance of the profession over the past thirty years. 'Our profession', he said, 'has grown out of recognition during those years, and there can be no doubt that the expansion of our duties and responsibilities has come about by the standards of integrity and dependability which the public and the governments – all those who require information relative to capital issues – can and do place on the certificates issued by firms of accountants.'

'It is a serious question whether conventional statements fully meet the requirements of real investors', declared Prof George R. Husband (U.S.A.) who dealt with the theoretical side of capital issues.

Present – or Past?

The investor, the quasi-purchaser of a business, bought on the promise of the present, and it was present rather than past performance which was important. Past performance had significance only in so far as it lent support to future expectations.

To a considerable extent investment was an alternative use of funds and social purposes were best served when the investment was attracted to the most economic alternative use.

The past experience of firms did not rest on a comparative price level basis. Statements based on present values were of greater potential service.

So-called comparative statements for the individual firm were not comparable. In a time of radically changing price levels the significance of money varied greatly and the longer the period covered the greater were the discrepancies.

'Standardize Terms' Plea

A plea for standardization of accounting terminology was made by Mr George L. Weisbard (U.S.A.). There ought not, he thought, to be differences in accounting terms between countries.

'I am not suggesting', he emphasized, 'a sort of accounting Esperanto. I think if we work within the existing language groups we can have a simplification which will make for greater information.'

Perhaps these activities could be attempted by a committee formed at this Congress, suggested Mr Weisbard.

The point of view of the prospective shareholder was put by Mr T. H. White (Australia). As an investor in certain public companies formerly private companies – he had always looked at the certificates given by the investigating accountants to take note of the average profits.

Average Profits

'But', he said, 'in the majority of cases those average profits have not covered more than five years previously.'

Those certificates were based, first of all, on the profits shown by the books and accounts of the respective private companies. Such profits did not always give any indication of the amount which would be available for distribution to the prospective shareholders on the capital which might be subscribed by them.

Mr Macdonald, introducer of the afternoon's paper, spoke of the difficulty which confronted him in summing up the discussion. Most of the speakers had referred to conditions in countries which, from a professional viewpoint, he knew nothing about.

Practice, not Principle

'It would', he said, 'be impossible for me to take up many of the points raised because I am not qualified to talk on level terms about a subject which is essentially one of practice rather than technical accounting principles, except in relation to the limits of my own experience.'

Mr Macdonald said that the potential investor was interested in the total amount of tax which was likely to be paid by a business. He should be informed of the total or given no information at all on the subject, but never only part of the information.

The discussion on the problem of accounting requirements for capital issues had borne out the recognition of the need for adequate accounting information to be given in published reports.

Two Stages of Development

'As I see it', said Mr Macdonald, 'there have been two stages in the development of public information in relation to these reports. The first stage, I suggest, really grows out of the drive by the financial or governmental authority to establish certain accounting standards for the protection of public investors.'

Probably in some countries they were still at that first stage and the accounting information given was rather sparse in content, although investors were striving to get it expanded.

Assessment of Merit

'The second stage, which I think has been reached in this country and probably in the North Americas', said Mr Macdonald, 'is not merely providing something to tempt investors, but to supply information that will enable investors to assess the real merit of what is offered.

'This second stage, although it has been reached, has not progressed far. One significant thing about it is that, undoubtedly, the initiative lies with accountants, and we are striving to grasp it.

'The whole of the discussion this morning is evidence on the one hand of the way we are recognizing our limitation and, on the other, the way we are trying to take our techniques ahead.'

On the other side was the question of giving advice said Mr Macdonald. The type of advice given by accountants depended much on the laws and custom of the country concerned and the circumstances of the particular case.

Capital and Taxation

'The scope for accounting advice in relation to capital seems to have increased as taxation burdens have increased and I am sure that accountants in most parts of the world are concerned very much with giving advice as to capital structure and taxation', he said.

'Just one final thought. The major and important

tasks in this field such as reports to the public, amalgamations, and reconstructions – these big jobs – do not happen frequently in the average professional office, and probably when these occasions do arise much of our work tends to follow the pattern which has been set by the leaders of the profession.

'On the other hand, in the field of advice probably the opportunity does knock at the door of almost everyone of us almost every day.

'The opportunity to give advice to clients, many of them small people, on capital is available. Probably we are the only professional advisers able to give it. It may be advice which will have a vital influence on the health and well-being of our clients. The effect of our advice may be greater than our influence in more spectacular public work.'

Those who had taken part in the discussion were thanked by the two deputy chairmen.

SOCIAL FUNCTIONS

Theatre Parties

The London theatres proved a very popular attraction to Congress members, both from home and abroad. All the seats reserved for members for Tuesday night's performances were allocated well in advance, and in nearly all cases members were able to see the play of their choice.

Seats were booked at four theatres and the Royal Opera House, Covent Garden, the plays selected catering for a wide range of tastes, and for the ballet-lover there was the Sadler's Wells company at the Royal Opera House. This famous company, which recently returned from a highly successful tour of the United States, danced *Les Patineurs* and *Giselle*.

Dress Show at the Royal Festival Hall

While the gentlemen settled down to the second of their business sessions on Tuesday afternoon, the ladies turned their minds – and eyes – to a lighter subject.

The contemporary background of the Royal Festival Hall formed an ideal setting for a display of up-to-the-minute clothing fashions staged under the auspices of the Incorporated Society of London Fashion Designers for ladies of members of the Congress on Tuesday afternoon.

Coming immediately after the London Fashion Fortnight which focused much attention on the British fashion industry, the dress show was of added topical interest.

During the mannequin parade, tea was served to those attending, and the afternoon, which was kindly arranged and admirably carried out by Lady Howitt and the members of the Ladies' Committee, was in every way most enjoyable.

Dutch Delegates Entertained

On Tuesday evening the partners of a London firm of Chartered Accountants entertained delegates and members of the Netherlands Institute to dinner at *The Savoy Hotel*. There were present:

De Heren A. Th. E. Kastein, LL.D. (*Secretaris*), H. C. Treffers (*Penningmeester*), H. L. van den Bosch, H. D. de Leeuw (*Members of the Council*), Professor A. M. van Rietschoten (*President of the Examination Bureau*), De Heren A. Goudeket (*President of the Sub-Committee for relationship with accountants of other countries*), A. Straatemeier, J. de Jong *ec. drs.*, G. W. Frese, A. L. de Bruyne (*Secretary*), de Dames Treffers, van den Bosch, Straatemeier, de Jong and de Bruyne, Mr G. D. F. Dillon (*Chairman, London and District Society of Chartered Accountants*), and Mrs Dillon, Mr Paul Rising, Vancouver, Miss Rising, Mr and Mrs G. N. Hunter, Mrs Douglas Clarke, Mrs Frank Smith and Miss Alison Clarke, LL.B.

A NOTABLE OCCASION

Of the success of the Congress there can be no doubt. The efficient staff work of the secretariat, the ideal weather, and the pleasing surroundings of the Royal Festival Hall, each contributed in producing what may be described as the perfect atmosphere for such a notable occasion.

All members of the Congress – from this country as well as from overseas – entered whole-heartedly into the proceedings, both serious and social, and comments of pleasure and appreciation were heard on all sides.

A full report of the concluding days of the Congress will appear in our next issue.

THE ROYAL COMMISSION

As stated on page 637 the Royal Commission on the Taxation of Profits and Income held further public sessions on June 12th and 16th.

British Employers' Confederation

There appeared for the British Employers' Confederation, Sir Richard Snedden, C.B.E., Mr David J. Young, Mr E. M. Amphlett, M.C., Mr F. J. C. Honey and Mr Cobb.

P.A.Y.E. and Incentives

Sir Richard confirmed that the Confederation was putting in amended tables to reflect the change produced by the last Budget. He said that the removal of two million people from P.A.Y.E. would reduce the administrative burden and the disincentive effect of that tax, although of course wages were still rising. Talk about the disincentive was largely habit and though an employee might give it as his reason for not working overtime, it was not necessarily always the correct one. It was doubtful whether a larger number of progressive rates would remove what real disincentive there was. It might be a good thing if everyone paid a little tax.

Mr Amphlett made the point that many wage earners worked for a constant budget and if tax was increased they tended to work harder to maintain their net earnings. For them, a sudden reduction in tax might mean less, and not more effort. One could not generalize for all workers because they worked for various reasons. Sir Richard said they did not favour schemes

for the exemption of overtime, it would be impossible to arrive at a definition of overtime which would operate fairly in every industry. Bonus schemes would need to be brought in. He was not in favour of a scheme for fixing a normal week's wages for each job and only taxing that; it was not a practical proposition. There was also disincentive at the sur-tax level. It took the form of a reluctance to accept additional responsibility, although there again there were other imponderable factors. Certainly new enterprise was discouraged.

From the taxpayer's point of view, equity of taxation was more important than simplicity, a simple tax which worked unfairly would cause trouble. Integration of tax with social security which produced a flat rate of as much as 6s 8*d* was quite impractical; individual social security contributions were desirable on psychological grounds.

The Employers' Role in Tax Administration

Witnesses confirmed that the Confederation were opposed to the laying of any assessing functions on employers. The present burden was serious enough, although they did not ask to be relieved of it. At a rough guess it was costing employers £5 to £6 million a year, perhaps 4*s* to 10*s* 6*d* per annum per employee. The trouble was not the cost but the delay it caused in computing the net wages due. The lowest estimate was one minute per employee but the average was much higher, especially for small employers who found it a great source of irritation.

They had considered the American withholding system but preferred P.A.Y.E. They did not want to have to pry into an employee's domestic affairs and in any case the cumulative system was more just and obviated annual adjustments in most cases. It was true that there were pension schemes here, and tax schemes in other countries, which involved the employer in knowledge of an employee's domestic circumstances but that did not mean that it was desirable to incorporate the principle in British income-tax. On the other hand, the employers' role in the working out of a satisfactory P.A.Y.E. scheme had been very important in ensuring its practical success. Understanding of the scheme was becoming more widespread.

Clothes and Tool Allowances

The Confederation had evidence of widely differing treatment, by the authorities, of claims for clothes and tools allowances. It did not advocate a uniform allowance but would like to see a more uniform attitude on the part of tax officials towards claims by manual wage earners, and a more generous attitude generally towards similar claims by clerical and staff workers who had to wear special clothing. One member of the Commission observed that there were probably mean, just, and generous people in the Inland Revenue, as elsewhere. Another member added that there were not many of the latter.

Issuing Houses Association

Messrs G. P. S. Macpherson, J. H. Keeling, Proctor and Margetts appeared on behalf of the Issuing Houses Association.

Profits Tax and Capital Raising

Mr Macpherson said that as preference dividends were treated as distributions, and as future rates of tax on distributed profits were always problematical, the issuing of preference capital involved both expense and uncertainty as compared with an issue of loan capital, so that there must inevitably be a tendency towards the latter, which was not so sound a method of raising capital. It made for rigidity and prevented a company from keeping loan capital as a last resort in difficult times. Mr Keeling agreed that if loan interest was also disallowed there would be a still greater burden on the ordinary shareholder than he now carries. Mr Carrington asked him if he was in favour of a flat tax on companies, to be accompanied by an additional tax on dividends received from them. He replied that this system worked in the United States and Canada and had not the complications of our system. It was difficult to argue against such a change.

On the question of special deductions in times of inflation, Mr Keeling confirmed that he was in favour of these even though they might involve passing a preference dividend in individual cases.

Professor Paish

Professor F. W. Paish gave evidence on the scheme he had submitted for the adjustment of profit to take into account changing price levels (see page 639). He agreed that a special reserve to meet replacements two or three years hence may still prove inadequate if prices rose further in the meantime, unless the money represented by those reserves were invested for instance in a commodity as a hedge.

The chairman said he was puzzled by paragraphs 16 and 17 of the memorandum (which provide for additions to profit to take account of the fall in the real burden of debts when prices have risen) in that they dealt with the full capital amount rather than the interest on it. Were not the liabilities like the fixed assets? Witness said they had to be repaid eventually. Logically they were like fixed assets but in practice an adjustment was necessary. Mr Carrington asked why he treated fixed dividend shares in the same way as borrowed money, normally a preference share was irredeemable, what was the logic of lumping it with debts? Witness said that several companies had recently got rid of their preference shares by reducing their capital with the consent of the court. That was like repaying a debt.

Trades Union Congress

The Trades Union Congress was represented by Mr C. J. Geddes, a member of the General Council, and three members of the T.U.C. staff. They amplified the T.U.C. memorandum about P.A.Y.E. and incentives.

Mr Millard Tucker asked their views on the proposition that an individual trader or manufacturer making something like £30,000 profit who had to plough back part of it ought to be allowed relief from sur-tax comparable to that which private companies now receive. The witnesses said they had not considered this point but in general they would not favour exemption from tax for a special class. If a case was made out, it would be better met by a special allowance which would not operate so indiscriminately. In reply to Mr Carrington they said they had not considered the proposition that a partner should pay sur-tax only on his drawings, not on the profit left in the firm.

INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

ANNUAL CONFERENCE AT BRIGHTON

The sixty-seventh annual general meeting and conference of the Institute of Municipal Treasurers and Accountants was held at Brighton on Wednesday, Thursday and Friday of last week.

In his presidential address on Wednesday, Mr Jack Whittle, B.COM., F.I.M.T.A., A.C.A., County Treasurer, Nottinghamshire, recalled the main postulates of a number of previous presidential addresses and traced to what extent these – which he grouped under six main headings – had subsequently been developed. The first was the much debated question of the revision of the existing boundaries and functions of local authorities. To improve efficiency and promote the revival of 'local interest', Mr Whittle considered that greater devolution of authority was desirable.

The second point dealt with by the President was the current method of making Exchequer grants on a percentage basis. If this were altered to a unit cost basis, greater economies would result and he illustrated, by means of tables, the inequalities caused by the distribution of the Highways grant on the present system. He also referred to the Exchequer equalization grant and regretted that, in the absence of revaluation, uniformity was impossible. Thirdly, Mr Whittle noted the increasing dependence of local authorities on the National Exchequer for revenue and the necessity to find alternative sources of income, one of which might be derived from the abolition of derating. The fourth heading was concerned with the relaxation of detailed Government control. Although conceding that local authorities must be prepared to accept guidance from the central government, the President hoped that the Man-power Committee, which had helped notably in recent years to reduce detailed controls, would continue to function.

On the question of borrowing, Mr Whittle said that, as the full market rate of interest was payable on advances from the Public Works Loan Board, local authorities should be allowed full freedom to seek finance in the open market and that, in any case, the Board should adapt its methods of lending to the flexible borrowing technique developed by local authorities. Finally, the President considered how best local authorities could improve their efficiency by internal reforms. In particular, he recommended the simplification of the committee system.

The Nation's Health

At the morning session on Thursday, Sir Frederick Alban, C.B.E., J.P., F.I.M.T.A., F.S.A.A., chairman of the Welsh Regional Hospital Board, presented an informative paper entitled 'Investment in the nation's health'. After reviewing the progress in improving the world's health over the past hundred years – during which time the expectation of life at birth in the United Kingdom has been doubled – Sir Frederick outlined the evolution of the National Health Service in this country and indicated the vital role local authorities have to play in its administration.

The net cost of the National Health Service in England and Wales for 1952–53 is estimated at £415 million of which £271 million are for the equipment and running costs of hospitals. Local rates contribute £20 million and the National Insurance Fund £37 million towards this expenditure and the balance is paid for by taxation. Against this cost of health there must be set the cost of sickness. The yearly loss to the country in production, due to absenteeism through illness and impaired capacity, has been estimated at between £300 million and £500 million.

Sir Frederick, commenting on the systems of estimates and accounting employed, said that they offered little incentive to economy and that there were strong arguments for a system of block grants fixed for a number of years. He doubted if the income and expenditure, or cash, basis of hospital accounts – necessarily incomplete because of the omission of such imponderables as overheads borne by the Government – was worth the labour and paper involved but agreed that 'the development of a high standard of sensitive hospital cost accounting' would be an aid to financial control.

The Nation's Housing

At the morning session on Friday, Mr H. R. Ralph, O.B.E., F.I.M.T.A., F.S.A.A., Treasurer, Harrow Urban District Council, reviewed the complementary subject of housing and the distribution of the burden of financing new building among national funds, local funds and tenants. The Housing Act of 1946, which fixed a subsidy of £22 per house per annum for sixty years, to be divided between the Exchequer and the local authority in the ratio of three to one, was based on an estimated capital cost per house of £1,100, an interest rate of 3⅛ per cent, an annual charge of £7 8*s* for maintenance, management and repairs and an assumed rent of 10*s* per week. It was expected at that time that factors would, thereafter, become more favourable, but prices and charges have increased steadily with the result that the new combined subsidies, announced in February last, amount to £35 12*s*. These are arrived at by assuming a cost per house of £1,520, an interest rate of 4¼ per cent, an annual charge of £12 for maintenance, management and repairs and an assumed rent of 18*s* per week. Mr Ralph next considered the burden of housing on local rates and said that the operation of Exchequer equalization grant to many local authorities effectively reduced it to a much lower figure than it appeared to be. He thought that rent levels were generally too low and that rent restriction in its present form was preventing many landlords from carrying out essential repairs to let property.

The Rt. Hon. Harold Macmillan, P.C., M.P., Minister of Housing and Local Government, addressed the members at the afternoon session on Thursday, and at the final session on Friday, the investiture of the President-Elect, Mr C. H. Pollard, O.B.E., F.I.M.T.A., F.S.A.A., City Treasurer, Kingston upon Hull, took place. The new Vice-President is Dr A. H. Marshall, B.SC.(ECON.), PH.D., F.I.M.T.A., F.S.A.A., City Treasurer, Coventry.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship at the Council meeting held on June 4th, 1952, who completed their Fellowship before June 17th, 1952.

Associates elected Fellows

Aldrich, Stephen Read; 1923, A.C.A.; (Whitehead & Aldrich), 2 Chapel Street, Preston, and at Leyland.

Brown, Philip Garfield; 1947, A.C.A.; (Brown & Piper), 56 John Street, Sunderland, and at Houghton-le-Spring.

Burdon-Cooper, Alexander McLaurin Monteath, M.A., B.SC.; 1933, A.C.A.; (Wenham Brothers & Co) and (Sidney H. Hossell & Co), 21 Bennett's Hill, Birmingham; also at London, (Wenham Brothers & Co).

Coombes, Robert Henry; 1945, A.C.A.; (Morris, Harper & Coombes), 10 Market Place, Chipping Norton, Oxon, and at Banbury.

Corpe, William John; 1931, A.C.A.; (Baker, Owen & Co), 9 Denmark Street, Bristol, 1.

Frame, Douglas McLean; 1940, A.C.A.; (*A. Macdonald & Co), County Buildings, Land of Green Ginger, Hull.

Hand, Stanley Cecil; 1933, A.C.A.; Banner Cross Hall, Ecclesall Road South, Sheffield, 11.

Haywood, John Stanley; 1942, A.C.A.; (*McBroom, Haywood & Co), 275 Ecclesall Road, Sheffield, 11; also at Keighley and Leeds, (J. W. Thompson & Co).

Lang, Robert Munro; 1927, A.C.A.; (Butler, Viney & Childs), 60 St Paul's Churchyard, London, EC4, and (Thomson, Gregory, Thol & Co), 513 Salisbury House, London Wall, London, EC2.

Mason, Arthur Roberts; 1925, A.C.A.; (Newton & Co), Union Chambers, 63 Temple Row, (P.O. Box 1), Birmingham, 2.

Nicholson, Reginald Herbert; 1937, A.C.A.; (Pike, Russell & Co), 7 Fitzroy Square, London, W1.

Rigby, Norman Raper; 1928, A.C.A.; 55 Market Street, Manchester 1.

Rule, Howard Olver; 1939, A.C.A.; (*W. J. Rule & Son), 10 St Nicholas Street, Truro.

Selig, Ralph Bernard; 1945, A.C.A.; (R. B. Selig & Co), 6 Chandos Street, London, W1.

Shearer, James Francis, O.B.E.; 1938, A.C.A.; (*Cooper Brothers & Co), 14 George Street, Mansion House, London, EC4, (for other towns see *Cooper Brothers & Co).

Whitehead, Sam; 1903, A.C.A.; (Whitehead & Aldrich); 2 Chapel Street, Preston, and at Leyland; also at St Annes-on-Sea, (Whitehead & Howarth).

MEMBERS' ADDRESSES WANTED

The Secretary of the Institute would be glad to know the present addresses of the following members of the Institute. The town at which the member was last known is shown after each name.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

William Bruce Thornton Bate, D.S.C., A.C.A., Blandford.
John Anthony Bodoano, F.C.A., London.
Philip Guy Burston, A.C.A., San Francisco.
Vernon George Byron-Brown, A.C.A., Woking.
Henry Charles Darby, A.C.A., London.
Frederick Charles Elstob, A.C.A., London.
Albert Edward Howard, A.C.A., Stoke-on-Trent.
Robert Leslie Leech, A.C.A., Wigan.
Leslie Samuel Ramsden, A.C.A., Sheffield.
George Thomas William Richards, A.C.A., Nottingham.
Hugh Mansfield Williams, A.C.A., Caister-on-Sea.

Personal

MESSRS BAKER & Co, of Northampton and Leicester announce that the practices of Messrs TAYLOR, FROUDE & C. R. RIDDINGTON, and of Messrs T. RIMINGTON & Co have been amalgamated with their own practice. The joint practices will be carried on at Welford House, Welford Place, Leicester, and at Castilian Chambers, Castilian Street, Northampton. The partners in the combined firms are Messrs H. FELDON BAKER, F.C.A., A.S.A.A., D. SIRKIN, F.S.A.A., J. W. WALKDEN, A.C.A., A.S.A.A., J. B. CORRIN, A.C.A., A.S.A.A., C. R. RIDDINGTON, F.S.A.A., T. RIMINGTON, F.S.A.A., and T. G. RIMINGTON, A.S.A.A.

Professional Note

Mr H. V. G. Upton, A.C.A., C.P.A.(Japan), has been appointed Assistant Managing Director and Treasurer of the Shell Company of Japan.

London and District Society of Chartered Accountants

The tenth annual general meeting of the London and District Society of Chartered Accountants is to be held at 6 p.m. next Thursday, June 26th, in the Oak Hall of the Institute, Moorgate Place, EC2.

Institute of Actuaries

The one hundred and fourth annual general meeting of the Institute of Actuaries was held at the Hall of the Chartered Insurance Institute on June 9th, 1952, the President, Mr F. A. A. Menzler, C.B.E., in the chair. Submitting the annual report and accounts for the year ended March 31st, 1952, Mr Menzler, referring to the continued growth in membership, stated that the demand for competent actuaries did not

diminish. Their all-round statistical training must help to increase this demand. He mentioned that last year two-fifths of the recruits to the Institute were graduates or undergraduates. In this connexion he referred to the scheme of exemptions from certain parts of the examinations in the case of graduates who had specialized in statistics at London University, whether for the B.Sc.(Econ.) degree or the B.Sc. special degree in statistics. Analogous arrangements had been completed to give exemptions to post-graduate students who had obtained the diplomas in statistics at Oxford and Cambridge. No exemptions would, however, be accorded from the papers in Probability or in the distinctively professional sections of the syllabus.

As evidence of the widening scope of their interests, he referred to the decision of the Council, in collaboration with the Faculty of Actuaries in Scotland, to appoint a panel to consider the financial and economic effects of the growth of pension payments both public and private. He also referred to the setting up of a joint committee to study statistical and mathematical techniques in their practical application to accounting data. The Society of Incorporated Accountants and Auditors, the Royal Statistical Society and the Institute of Actuaries are represented on this Committee.

Mr Menzler's successor as President of the Institute is Mr W. F. Gardner, General Manager of the Prudential Assurance Company.

Chartered Accountants' Golfing Society

The summer meeting of the Chartered Accountants' Golfing Society was held at Sunningdale on June 6th, and the scores in the medal round and greensomes were as follows:

Medal Round

Scores also count for first round of Turquand-Young Challenge Cup:

1. K. P. Chapman, 86 — 17 = 69 (wins 1st Prize on better score for last nine holes); H. D. Nicholson, 71 — 2 = 69 (wins scratch and 2nd Prize); 3. M. Stuart-Smith, 87 — 17 = 70; 4. S. G. Sillem, 77 — 3 = 74; 5. D. W. Gibson, 86 — 11 = 75; J. B. P. Williamson, 88 — 13 = 75; 7. W. S. Hayes, 83 — 7 = 76; R. A. Daniel, 86 — 10 = 76; 9. A. M. Lotery, 89 — 12 = 77; 10. H. C. Staines, 87 — 7 = 80; S. L. Forwood, 90 — 10 = 80.

Greensomes (points scoring)

H. D. Nicholson (2) and J. R. Darby (8), 39 points (win 1st Prize); H. Lemmon (8) and H. C. Staines (7), 36 points (win 2nd Prize); M. T. W. Easby (3) and R. D. Henderson (5), 35 points; S. G. Sillem (3) and J. B. P. Williamson (13), 35 points; S. L. Forwood (10) and H. E. Harden (12), 30 points; D. W. Gibson (11) and S. W. Penwill (18), 30 points.

The Royal Commission

Further public meetings of the Royal Commission on the Taxation of Profits and Income have been arranged as follows:

Tuesday, June 24th, at 2 p.m., to hear evidence from the Stock Exchange.

Friday, June 27th, at 10.30 a.m., to hear evidence from Mr T. Balogh, Mr R. F. Harrod and Mr P. J. D. Wiles.

Friday, July 4th, at 2 p.m., to hear evidence from the Association of Certified and Corporate Accountants.

All meetings will be held in the Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, WC2.

We hope to publish reports of the proceedings at these meetings in subsequent issues of *The Accountant*.

Annotated Tax Cases

Part II of Volume XXXI of the *Annotated Tax Cases*, edited by Roy E. Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *C.I.R. v. Bell & Nicolson Ltd* (Ch.D.); *Golder v. Great Boulder Proprietary Gold Mines Ltd* (Ch.D.); *Wood v. Black's Executors (The Public Trustee)* (Ch.D.); *Phillips v. Whieldon Sanitary Potteries Ltd* (Ch.D.); *Keiner v. Keiner* (Q.B.D.); *Harvey v. Caulcott* (Ch.D.); *Townsend v. Electrical Yarns Ltd* (Ch.D.); *Union Corporation Ltd v. C.I.R.* (C.A.); *Johannesburg Consolidated Investment Co Ltd v. C.I.R.* (C.A.); *Trinidad Leasehold Ltd v. C.I.R.* (C.A.); *In re Howell* (Ch.D.); *Moschi v. Kelly* (Ch.D.); *McIntosh v. Manchester Corporation* (Ch.D.); *C.I.R. v. Dowdall O'Mahoney & Co Ltd* (H.L.); *In re Rose* (C.A.); *Conway v. Wingate* (C.A.).

The annual subscription to the *Annotated Tax Cases* is 30*s* post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

Recent Publications

GUIDE TO GOVERNMENT ORDERS, Indexing S.R. & O.s and S.I.s in Force at December 31st, 1951. ccvii + 1,263 pp. 9½ × 6. £4 4*s* net. H.M. Stationery Office, London.

DIRECTORS' REMUNERATION FOR TAX PURPOSES (including Excess Profits Levy), by Philip Fisher, F.C.A. ix + 176 pp. 8½ × 5½. 21*s* 6*d* post free. Clarity Publications Ltd, 63A Great Russell Street, London, WC1.

Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (May.) 'Survey of 75 Texas Firms Shows Wide Variation in Accounting Personnel Practices', by C. Aubrey Smith, PH.D., C.P.A., and Keith Davis, M.B.A.

WESTMINSTER BANK REVIEW. (May.) 'Inflation and Accounting Profits', by W. T. Baxter, Professor of Accounting in the University of London.

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CONTENTS

AFTER THE CONGRESS

THE Sixth International Congress on Accounting, held in London last week, is still too vivid and colourful a memory to be seen in its proper perspective. The splash, as it were, has been made, but the concentric circles of ripples are only now beginning to radiate. It may, indeed, be some time before the full impact of the cultural and social consequences on the profession becomes apparent. Not until the proceedings have been read and studied by accountants throughout the world and delegates have returned home and reported to their various associations, can the worth of the Congress be accurately assessed.

It may safely be said now, however, that whatever future influence the Congress will have on accountants themselves, it has, judging from widespread Press reports and editorial comments, already enhanced the prestige of the profession in the eyes of the financial world for two main reasons. The first is that the subjects selected for discussion were not remotely academic but were essentially ones which, in the phrase of FRANCIS BACON, come home to men's business and bosoms. The other reason is the crisp and authoritative treatment which each subject received. Without exception, the contributions to the deliberations were noteworthy for their exact scholarship and objective reasoning and typified the profession's determination to help to ease the pressing difficulties of the business community.

Of the social significance of the Congress and the part it may have played in contributing towards better human understanding throughout the world, it is almost impossible to hope too much. At the opening session, SIR HAROLD HOWITT, the President of the Congress, stressed the material influence which accountants should have 'towards right thinking on all those financial and economic problems which are normally at the root of international disputes and wars'. SIR HAROLD's idea of setting the world right by the application of pure reason is not new but it is one which 'the register of the crimes, follies and misfortunes of mankind', as GIBBON described history, shows, has seldom been given a fair chance.

Nothing in the particular sphere of accountancy could be of greater assistance as a contributory means to this civilized end than regular international meetings such as the one just concluded. The pooling of ideas, the stimulus of even-tempered debate and the opportunities given to our visitors by the various social activities of the week to gain insight into our way of life will have a lasting value which cannot be measured even by accounting symbols.

THE ROYAL COMMISSION

THE STOCK EXCHANGE MEMORANDUM

LAST Tuesday MR H. B. TURLE a member of the Council of the Stock Exchange, London, gave oral evidence to the Royal Commission on the Taxation of Profits and Income.

The memorandum which the Council submitted to the Commission last year is commendably short, clear and to the point. It deals mainly with matters peculiarly within the province of a stock exchange and carries all the more weight on that account. On the general question under Head A of the subjects on which the Commission invited representations, the memorandum advances the general proposition that, as all investment is a balancing of risk against reward, the reduction of reward almost to vanishing point cannot fail to discourage investment.

The following figures are reproduced in the memorandum from *The Economist* of January 6th, 1951, to show company issues made by direct public offer in the four years 1947 to 1950:

Year	*Loan Capital*	*Preference*	*Ordinary*	*Total (£ million)*
	£	£	£	£
1947	30·5	41·8	114·8	187·1
1948	11·1	23·5	101·6	136·2
1949	11·7	32·2	76·5	120·4
1950	64·3	10·9	58·5	133·7

The predominance of ordinary shares as a means of raising capital in the earlier years is most marked. The memorandum concedes that this may have been due in part to nationalization of certain industries which may have induced the holders of equity capital in the nationalized industries to seek new equity shares in replacement. Clearly this cannot be the whole story. The changing pattern of investment is clearly brought out by the 1950 figures. In that year, for the cases covered by the statistics, ordinary shares had dropped to second place. Loan capital issues had more than doubled, while preference share issues had fallen by nearly three-quarters to less than 8 per cent of the total. Here again the memorandum concedes that the increase in loan issues may have been partly due to the fact that only temporary finance was needed. Nevertheless it suggests that the main cause of these changes was the incidence of profits tax. It was disclosed at the public session that the corresponding figures for 1951 showed the same trend although to a less marked degree.

The Council are of the opinion that companies should, generally speaking, be taxed only on profits earned in or remitted to the United Kingdom. In another part of the memorandum the Council express the opinion that the present provisions for relief in respect of double taxation are satisfactory. These two matters are really bound up together; a British company which operates abroad does not normally receive full relief in respect of foreign tax. Moreover, the definition of foreign tax is a close one and there are many other burdens laid on such a company by foreign states which may be just as onerous as a tax on profits but which do not qualify for double tax relief. If British tax were confined to remittances the provisions for relief from double taxation could well be simpler and at the same time less anomalous.

Turning to the question of taxing capital gains, the Council say that it is frequently assumed that such a tax would produce a large yield for the Revenue. To show that this assumption is not borne out by recent experience in the United States where, of course, there has been a capital gains tax for some years, the Council quote the following estimates given by the United States Treasury in recent hearings before the Finance Committee of the Senate:

(In million dollars)

	INDIVIDUALS		CORPORATIONS	
Year	*Estimated Tax on Capital Gains*	*As percentage of Total Income Tax*	*Estimated Tax on Capital Gains*	*As percentage of Total Income and Excess Profits Tax*
1940	−7	—	−49	—
1941	−86	—	−164	—
1942	68	0·8	42	0·3
1943	266	1·8	69	0·4
1944	354	2·2	100	0·7
1945	721	4·2	214	2·0
1946	893	5·5	270	3·0
1947	644	3·5	210	1·9
1948	528	3·4	190	1·6
1949	475	3·1	190	1·9
1950	780	4·2	270	1·6
1951	890	3·7	330	1·5

The Council presume that any proposals for such a tax here will, if they are to be equitable,

include the following three points, namely, that all capital gains would be subject to it, but not until they were realized, and that there would be an offset for capital losses. Turning to Stock Exchange profits in particular, the Council surmise that these might arise from one or more of the following:

(*a*) a general expansion in the national economy;
(*b*) a fall in the value of money; and
(*c*) skilful or fortunate investment.

When giving oral evidence Mr Turle added a fourth cause: – a general fall in interest rates.

As condition (*a*) has been present in the United States for some time, the Council express surprise that the capital gains tax in that country should have produced so small a proportion of the total revenue. They point out that capital gains under condition (*b*) are not really gains at all since the taxpayer's capital remains unchanged in real value. Gains under condition (*c*) will be counterbalanced by corresponding losses incurred by those not so skilled or not so fortunate in their investing, in respect of which a rebate would be given. The Council are here assuming, it seems, that the loss provisions would be quite general and would permit of capital losses being carried either backwards or forwards at the taxpayer's revocable option. This is hardly likely to be the case, and even the most generous provisions for relief would not in practice prevent some losses from remaining unrelieved although they may well make the tax so unremunerative as not to justify the cost of collection. Moreover, the realized losses could not, except by accident, amount in the aggregate to the realized profits, since any given period will end with persons holding assets which they bought during that period.

The memorandum points out the added complication in the United States capital gains tax of 'short' and 'long' profits. As the outcome of many years' experience of the tax, profits realized within six months are taxed at the ordinary income rates, while those profits realized after a longer period are taxed at 25 per cent. Consequently, investors who have made a profit will tend to defer realization until the six months have expired, while those with losses will tend to realize within the six months. In a generally rising market, retention by sellers will intensify the boom; in a falling market there will be a rush of selling to obtain losses on which higher relief is allowed. The Council understand this to have been the experience in fact.

The memorandum quotes the *Investors' Chronicle* of October 20th, 1951, on the capital gains tax in the United States. The quotation ends with the following significant words:

> 'Many taxpayers can almost indefinitely postpone realization of capital gains when the rates become prohibitive. All in all, it would seem that capital gain revenues are hardly big enough to make worth while the enormous amount of work put in by taxpayers, accountants and tax authorities.'

The Council's conclusion from all this is that a capital gains tax is a 'will-o'-the-wisp', particularly in a static economy. They submit that it will greatly damage liquidity of markets and so render more difficult the raising of equity capital and the disposal of securities for the purpose of paying death duties. With a far less buoyant economy than the United States, and a 2 per cent stamp duty which does not obtain there, the Council consider it certain that the loss in stamp duty would reduce and might even outweigh the net revenue from a capital gains tax. It is not clear whether the Council contemplate a contemporaneous abolition of the stamp duty or whether they think that the capital gains tax would greatly reduce the total number of transactions. Of course, even now there are capital transactions which do not attract stamp duty, and it is difficult to discuss net revenue from the capital gains tax without knowing its probable rate.

Judging by the questions put to Mr Turle, it would seem that not all the members of the Commission entirely accept the Council's view of a possible capital gains tax. It is certainly true that income-tax law draws some subtle and not always defensible distinctions between capital and income which give rise to criticisms on grounds of equity.

The Council recommend that earned income relief should be extended to cover a much higher figure than the present one of a little over £2,000. They point out that at present the relief ends at the point where sur-tax begins, and that the limit of £2,000 was fixed when the pound sterling was worth much more. The Council endorse the recommendation of the Millard Tucker Committee that sur-tax on fluctuating incomes should be spread at the taxpayer's option by averaging the rate over a five-year period.

THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952 – II

PROCEEDINGS OF CONCLUDING DAYS

We now conclude our report of the proceedings of the Congress. The presence in our midst of about 2,000 accountants from all over the world was a reminder of the extraordinary progress made by a profession comparatively recently established on an organized basis, yet already an integral part of industrial and commercial life. There is no doubt that the profession indirectly exercises a considerable influence on national economics, and we feel that the events of last week will have contributed much, not only to those who attended, but to those they serve.

THE ACCOUNTANT IN INDUSTRY

Third Business Session

The subject of Wednesday morning's session of the Congress was 'The Accountant in Industry' – undoubtedly an appropriate one in the light of the development of what has become known as 'management accounting', which is increasingly a topic of progressive thought within the profession.

Mr. Patrick Butler, F.C.A., Vice-President of The Institute of Chartered Accountants in Ireland, took the chair, deputizing for Mr H. E. A. Addy, F.C.A., F.S.A.A., President of the Irish Institute, who was unfortunately indisposed. With him, as deputy chairmen, were Mr Conrad F. Horley, of the Association of Accountants of Australia, and Mr L. Van Essen, of the Netherlands Institute of Accountants.

SUMMARY BY THE RAPPORTEUR

The rapporteur, Mr N. R. Mody, B.COM., F.C.A., India, then delivered his summary of the papers, as follows.

I consider it an honour to be asked to act as rapporteur on this paper by the Council of the Sixth International Congress on Accounting, the importance of the paper being related not only to the profession but also to industry and trade in general. As you are aware, the original contributions are by Mr F. R. M. de Paula and Mr W. S. Risk, and there are five papers on the subject.

Development of the Profession in the U.K.

Mr de Paula's paper refers to the development of the profession in the United Kingdom from the last half of the nineteenth century, through the expansion of industry, and of commerce and the conversion of partnerships into companies under the Companies Acts. The objects of the Charter of The Institute of Chartered Accountants in England and Wales focus attention on the work of liquidations and receiverships, and audit work is taken as the last objective. With the growth in the number and size of companies, industry and commerce, however, increasingly relied on accountants for their book-keeping, and it was to the professional accountant that they turned not only to audit their accounts but to prepare them.

The increase in the rate of income-tax during the First World War led to further engagement of the services of public accountants. With a low rate of tax the average business man dealt with his own income-tax, as his tax formed a low percentage of his earnings, but the increase in the rate between the wars and the steep rise during and since the Second World War, coupled with the complicated nature of taxing legislation, led him to seek expert advice. Finally, costing, which assumed importance between the wars, and particularly during the last war, led to added responsibilities for the accountant.

Management Accounting

From all this developed a further field of activity which has greatly expanded today and is assuming increasing importance, the technique of what is now known as management accounting. The increasing responsibilities shouldered by accountants is leading to more of their number being drawn by industry and commerce to perform functions on a whole-time basis, which were formerly carried out by professional accountants. Thus came into being a demand for specialized accountants to supply the needs of industry and commerce, with an outlook different from that of the accountant in industry of the early days, as well as that of the accountant in practice.

Mr de Paula has given an analogy of a ship's log which, as he puts it, records the happenings of a voyage, from which valuable lessons can be learnt and used by the captain of the ship. But in addition he requires his navigating officer to chart his course ahead and to report whether the ship is on its predetermined course. Similarly, management must know whether the industrial ship is on or off its course, so that prompt remedial action may be taken to prevent her from going on the rocks.

Planning Ahead

Planning ahead is the essence of management accounting today. Without this, management is not in a position to chart its course of future operations and activities. It is essential, therefore, that information must not only be readily and quickly available but also that it must be unaccompanied by an unnecessary mass of details. How the information reaches management is a matter of organizational set-up, but the ideal to be achieved is centralized control with decentralization of responsibility along the line. Unless this is achieved, the top command is bound to be clogged with details, and will be prevented from taking action on matters of vital importance.

Standard Cost and Budgetary Control

All the papers are unanimous in this aspect of forward planning by means of standard cost and budgetary control. This involves the laying down of yard-sticks under given conditions and the measurement of actual achievement there against. Mr Payrau has expressed it very simply by stating that using a standard is giving up the question 'How much did it cost?' as a unit of measurement, and replacing it by 'How much should it cost?' The standard must be so fixed that management must be able to prove that the standard can be worked and that it is not based on hypothesis. The setting-up of such a system requires the co-operation of all departments – engineering, technical, procurement, sales, etc., and the comptroller comes into the picture to fit in, in a financial form, the details supplied by the various departments. It is he who interprets in one complete picture the information separately supplied to him.

It is agreed generally that in setting up budgetary control and standard cost, the co-operation of every department is essential. Otherwise, the standards set may not have relationship to achievements and the result may be a general distrust of the whole system.

Mr N. R. Mody, B.COM., F.C.A.; rapporteur at Wednesday morning's session of the Congress

The Comptroller

Mr de Paula's paper outlines in detail the organizational set-up and the part the comptroller plays in it. Briefly, he states – and on this point there is unanimity among the papers – that the finance division must be on equality with the other departments to represent finance at top policy-making level and to give clear expression and advice on financial implications. The finance division would be responsible for finance, costing, accounting, production of periodical reports and annual accounts.

Mr de Paula has given the example of the comptroller of a holding company with ramifications throughout the world. He would be generally responsible for basic principles on which all accounts, cost reports, statistics, etc., should be prepared throughout the whole group, and would lay down the form of presentation of statements for submission to headquarters. The accountant in the divisions and subsidiary companies would report through his chief executive to the comptroller of the holding company. There should be attached to the accounts of each subsidiary a standard questionnaire in a form drawn up by the comptroller, to be completed and certified by the chief accountant of each subsidiary.

Executive and Informative Functions

The paper submitted by Mr Risk has concentrated on the functions of the accountant in industry and his utility to the management in general. He has divided the functions of the accountant into two parts – the executive function and the informative function. Under the executive function is included responsibility for financial and cost accounting, machine accounting, wages control and the operation of agreements arrived at with labour, such as incentive wages, employee's services in the shape of disbursements for sickness, savings and pension funds and other facilities, and a knowledge of company law and labour legislation. The informative function deals mainly with the planning aspect of the accountant's duties and a comparison of the plan with actuals.

Mr Risk has drawn attention to the variety of interests for which the accountant supplies information, and under the main headings may be mentioned the State, the owners of the business, the management and the employees. All these relate to the accountant's functions in providing information on past activities, but, based on the records of the past, forecasts are required by management for the future.

Concise Report

In order to be able to discharge his duties it is essential for the accountant to have sufficient authority and for his status to be in line with those of higher management. Once the forecasts have been made and the standards laid down and budgeted for, it is the account-

ant's duty to provide facts and figures for the management which tell what has happened and whether the planning has been effective. For the purpose of bringing out variations from a set standard, the accountant should submit his report in concise form – a report understood by those sitting round the table who may not be equally conversant with accounts – and should supplement it where necessary by a verbal report at the appropriate meeting.

An intelligent appreciation of the variations will enable action to be taken to remedy divergences from the plan laid down. Mr Risk has suggested the classification of expenditure so that the headings required for financial purposes are the natural groupings of the more detailed classifications required for cost ascertainment and control. He has illustrated how variations from the budget can be shown up and the type of information required to provide the means of control, by setting up 'plan' and 'control' for each department.

The presentation of the report for cost ascertainment and cost control, with action as its objective, must be such as to convince management. The figures and the reports must not only be understandable and alive, but they must also be selective, simple and short.

Need for Information

In commenting on the needs of the industrial executive for a general accounting plan and an industrial accounting plan, Mr Clinton Bennett points out that, for successful competition with the giants in industry, information is needed as much by the medium and small American enterprises as by the so-called big business. It should be admitted that the size of a business is relative to each country, and what is medium size for the United States of America may be a large-size business for another country; but it is interesting to note that, in the relative context of size in the United States, the medium and small enterprises are interested in the services of the industrial accountant.

The large membership of the National Association of Cost Accountants is a pointer to the development of industrial accounting and the use made by industry of the services of such accountants. Mr Bennett has rightly pointed out that standard cost reflects the cost of producing a specific article at a given level of output and under an assumed set of circumstances that are expected to prevail. Variations from these circumstances will obviously upset the forward planning, and it is the task of the industrial accountant to spotlight these variations.

Management must have a monthly statement of accounts in order to follow the cost control programme, and for this purpose it is suggested that the cost of sales should not be obtained by the laborious process of taking an inventory of the stock at the end of the month or the given period, but by taking the cost of sales by using standard cost. The obvious purpose of this statement is to compare predetermined costs with actuals. It is generally accepted in the United States that the industrial accountant is considered part of the management team, made responsible directly to the president of the company, who, as the chief executive, is responsible to the board for carrying out the policy laid down by it.

Accountant in Industry in Australia

The work of the industrial accountant in Australia, although not as fully developed as in the United Kingdom or on the North American Continent, is assuming importance with the increase in industrialization. Mr Fitzgerald states that in Australia industrial units are mostly small-scale, and that is the reason attributed for industrial accounting not being as fully developed as in some other countries. Nevertheless, development appears to be proceeding steadily when one considers that the total membership of the five major institutes in Australia exceeds 18,000 for a country with a population of only 8½ millions.

However, it appears that the accountant in industry in Australia has not reached the same status, and although there are instances of accountants having reached managerial status, they are there more by virtue of managerial ability coupled with a knowledge of accounting rather than with accounting ability coupled with managerial qualities.

As stated above, small-scale units predominate, and there is neither the opportunity for the full use of accounting services nor the possibility of obtaining such services at a reasonable cost. A further handicap is that in such units the managers are generally unaware of the uses to which accounting can be put. Finally, Mr Fitzgerald has suggested that there is lack of unity of purpose between public accountants and accountants in industry, and as a consequence general accounting and cost accounting have come to be looked upon as separate and unrelated in study as well as in practice.

Another factor is that convention has played a strong influence in both branches of the profession, and there is a noticeable disinclination on the part of public accountants to change methods and forms which have been in use for a long time. On the other hand, cost accounting systems which have been installed have been over-elaborate, costly to operate, and productive of little information.

Cost Accounting a Special Field

In Canada, as Mr Moller has pointed out, the leading accountants in industry came largely from the ranks of public accountants. The industrial accountants in Canada have organized themselves into a body under the Society of Industrial and Cost Accountants of Canada. The Society in co-operation with the universities has organized courses of practical and theoretical training and instruction based upon a standard syllabus, and uniform nation-wide examinations are held every year. Since accountants in industry are largely interested in cost determination, they have developed cost accounting as their special field. Publications, bulletins, annual reproduction of the proceedings of cost conferences and various literature have contributed to the advancement of the training of the accountant in industry in North America.

Mr Moller points out that the accounting department is a service department and, therefore, cannot limit its activities merely to auditing functions, but should at all times be prepared to disseminate information on its own initiative to other departments. This will often avoid the setting up of statistical records within the organization where the information should come from one centralized office, namely, the accounting department. The accountant in industry has also the task of educating all members of the management team in financial matters, and until he succeeds in convincing every member of the organization of the necessity for accurate recording, then only can he

hope to achieve the aim of an accountant, which is not only reporting of the past, but also ascertaining the present and intelligently forecasting the future.

How will we do in the Future?

The accountant in industry no longer merely records financial happenings as they take place, and although facts must be accurately recorded, he must analyse them to determine the future. He has the tools at his disposal from which he can tell the management not only 'How have we done up to now?' but also 'How will we do in the future?' He must devise means of showing the management the level of estimated profits without waiting for the books to be closed. The top management is where policy is forged and the comptroller is one of the links in this team; it is only by his participation that others can take policy decisions affecting the financial position or, perhaps, the very existence of a company.

Mr Moller has drawn pointed attention to one aspect that, whereas financial accounting is based on convention, practice and legal aspects affecting each country, such as the Companies Act, 1948, there is a lack of uniformity in the presentation of cost accounting reports. It is hoped that some common approach can be made by statements on cost accounting procedure, similar to the research bulletins of the Committee on Accounting Procedure and the statements of the Committee on Auditing Procedure of the American Institute of Accountants.

Dual Function of the Accountant

M Payrau has stated that the accountant's function is dual – on the one hand, as 'management of the accounting function' and on the other hand as 'accounting for the management function'. It is only in the last few years that the accountant in industry has come into his own in France, and this is largely due to industrial expansion, complexity of modern industry, and attempted centralization of authority, coupled with the growth of the personality of the accountant with college or university education including a sound law and tax background.

The position in Denmark appears to be different from that prevailing in other countries from which papers have been submitted. Mr Jeppesen states that there are only 400 chartered accountants in Denmark, and 90 per cent of them are in professional practice or employed as assistants in practising firms. The external accountant is called upon to perform functions not only in connexion with the auditing of accounts, but also to report to the board on internal functions. He is responsible for interpretation of results and for bringing out features pertinent from the management point of view, but it would appear that these functions are largely historical in character.

Although large industrial companies do employ accountants to guide their financial policies by the preparation of budgets and standard costs, in view of the restricted nature of industrialization in Denmark this aspect of the work has not developed to as great an extent as in the United Kingdom or the United States of America. There are very few chartered accountants in Denmark permanently attached to one company and, therefore, reliance is placed more on the accountant in practice.

Education

The question of education has been dealt with in some of the papers, and it is admitted that limited facilities exist for practical and theoretical training. Even so, with the growing importance of the industrial accountant, this matter is engaging more and more attention. The Institute of Cost and Works Accountants in England has taken a significant step in the proposed establishment of the fellowship grade for qualification as management accountant. Up to now, the accountant in industry is being drawn largely from one of the professional bodies where he serves articles, and his experience is limited almost entirely to professional work; he may enter industry at a very early age and, simultaneously with practical experience, qualify for the examination of the Institute of Cost and Works Accountants.

The accountant who qualifies in a public accountant's office and thereafter takes an appointment in industry has little knowledge of, or experience in, many of the functions which have been referred to in the papers. However, the broad outlook and the high standard of training obtained by him, coupled with practical experience, may lead the right man to be an effective member of the management team.

In the field of education, as far as industrial accountants are concerned, it would appear that more facilities exist in the United States and Canada than in other countries. The real problem is not to increase the number of accountants but to secure those of the right type.

GENERAL DISCUSSION

Simplification Needed

First speaker in the discussion, Mr A. A. Fitzgerald, of Australia, underlined a comment made in several of the papers – the need for accounting aid in small businesses.

'That', he declared, 'seems to me to be one of the most valuable services which the accountant can render to society, because for the survival of the system of free enterprise, the health and well-being of the small business is essential.'

This aid involved three things, thought Mr Fitzgerald. One was an integration, not only of financial and cost accounts, but of accountants and the development within the profession of a unified outlook towards the purposes, methods and philosophies of accounting.

Aid also involved a simplification of cost accounting procedures and reports, possibly by the adoption of direct costing.

Salutary Reminder

Thirdly, there ought to be a shortening of the accounting period. 'This will make it possible for the small business, as well as the large, to get information at intervals of not more than one month, instead of waiting until the end of the year to discover what inefficiencies have occurred and what damage has been done by them.'

But, warned the speaker, if these things were to come about a change of attitude among accountants generally was needed.

'I think', he added, 'it is for all of us to go back

over the history of the development of cost accounting – we shall then have a salutary reminder that accountants have at times failed to respond promptly enough to the needs of industry.'

Finnish Viewpoint

The Congress heard from Mr Erkki Usva (Finland) that the impetus to the development of industrial accounting in his country was afforded by a new act on book-keeping passed in 1945. It stipulated that anybody carrying out industrial activities on a factory scale, and any operators of comparable handicraft businesses should, in addition to double-entry book-keeping, also carry out production cost accounting.

The production cost accounting must be comparable to book-keeping and must be amended whenever the values of accounted items or the basis of the accounting underwent a considerable change.

During the war an industrial economic association was established in Finland embodying in its programme co-operation between industrial management, engineers and accountants.

Closer Ties

'If this course is pursued in the other associations, institutes and business firms,' said Mr Usva, 'the management can be brought close to accounting, and accounting to the management level.'

Since the war, everything in accountancy has been overshadowed by management accounting, declared Mr C. G. Buck (Great Britain and Ireland).

'Our economic struggle has thrown the spotlight on productivity and now the broad picture of the accountant in industry is that of a technical executive whose function it is to provide management with data, statistics and forecasts for the formulation of policy.

'It is an attractive picture for the accountant because he is creative. The "new look" in accountancy has arrived – and arrived with a fanfare.'

Routine Important

Where there was a spotlight, however, there was also obscurity, and while management accounting and productivity had been to the fore, the many other routine jobs with which the accountant had to deal had been subordinated.

'Are we paying too much attention to this field at the expense of the rather dull, routine, fundamental but vitally necessary function of the accountant?' he asked.

Concern for the smaller industrialist was expressed by Mr A. M. Craig (Malta) who suggested the setting up of a research committee to study methods of adapting a system of management accounting for the small man.

M J. Germain (France) spoke of the slowly developing and novel aspect of the industrial accountant – the social part he played within the company. This resulted from the nature of the information he could supply.

Human Approach

'By analysing and checking production and distribution costs', said M Germain, 'the industrial accountant is compelled, whatever the cost controls are – simple or budget control – to discuss with the responsible people their outlays and their results, laying his finger on their accurate contribution to the common effort.'

A call for a more human approach was made by Mr A. E. F. Gilbert (Great Britain and Ireland).

'Too many industrial accountants lock themselves up in the seclusion of ivory towers', he said. 'That attitude cannot fail to have an adverse effect on the fortunes of the company which is blessed with such monastic specialists.'

Cardinal Principle

Mr Gilbert gave this 'cardinal principle' to his listeners on the functions of industrial accountants: 'Let them take their eyes from their text-books, schedules and calculating machines and go into the factory.

'There they will meet the people themselves and can talk to them, getting their points of view.'

A criticism of the tendency to turn out both industrial and professional accountants from the same mould was made by Prof. H. Greenwood (Africa). These two, he said, were different in outlook and attitude towards their work.

'It is', he added, 'essential that we should stress the question of attitude of mind to the job rather than the technical peculiarities and differences between the two spheres.'

Doubling Condemned

Mr A. Harbinson (Great Britain and Ireland) condemned the principle of one man doing two jobs – the industrial accountant in the position of executive.

'While in fact', he said, 'many industrial accountants do develop into most successful chief executives, I question whether the person who has the temperament of the successful accountant can wholly become the successful general manager.'

These two jobs needed entirely different outlooks, Mr Harbinson added. 'And if an accountant tries to combine the functions of both he will fail in one or the other – if not both.'

The greatest need of the profession, according to Mr John I. Marder (U.S.A.) was to bring accounting development to the smaller businesses.

Small Man's Problem

'There is a reluctance to measure results in a small business,' he declared. 'The little business has to judge a wide variety of trends, ideas and hopes; expediency and opportunism form the basis of many a small business man's evaluation.

'We must endeavour to aid him by giving direction to his activities, rather than allow him, like Don Quixote, to tilt at windmills.'

Mr A. Houldsworth (Great Britain and Ireland) appealed for awareness of the social good which accountants in industry could achieve by assisting in and improving the efficiency of management.

From increased efficiency should result lower costs and cheaper selling prices, thereby making available to a larger number of people the material benefits of the products and services that the scientist and the engineer were providing in ever-increasing measure.

Another British speaker, Mr H. Norris, affirmed his belief in the essential unity of the accountant in industry and the accountant in private practice.

As one who had been engaged in both spheres he referred to the resistance met by the accountant in industry from people who thought his function to be purely restrictive.

'The accountant should not be a man who says

"no",' he asserted, 'but one who is in right at the beginning when a decision is made and who is consulted as to his views.'

A third speaker from Britain, Mr L. W. Robson, said that although it was generally accepted that there were newer, and better management techniques, proved and found extraordinarily successful and of great value, perhaps only 30 per cent of industrial and professional accountants were specialists in their application.

Accountants' Task

The U.S.A. was 'on to something' in making the accounting system fit the management pattern. In Britain there were a large number of firms which had to be raised to the level of the best in that respect.

Mr W. Scott (Australia) said it was essential for the accountant to re-examine his duties, practices, responsibilities and opportunities in a changing world. It had been refreshing to see in the papers submitted that morning an admirable acceptance of that fact.

Mr C. Oliver Wellington (United States) expressed the view that the value of cost accounting lay in its contribution to the control of a concern. Frequent reports of the more important operations should be given to managements. 'Otherwise,' he added, 'losses may be going on without the facts being brought to the attention of the executive.'

General Agreement

In a summing-up of the discussion, Mr de Paula commented on the lack of any real difference of opinion, either among the speakers or the contributors to the symposium.

'It may be', he said, 'that to many of us this is a new field. Maybe we have not made up our minds about it and have yet to reach the stage at which we can vie with each other.'

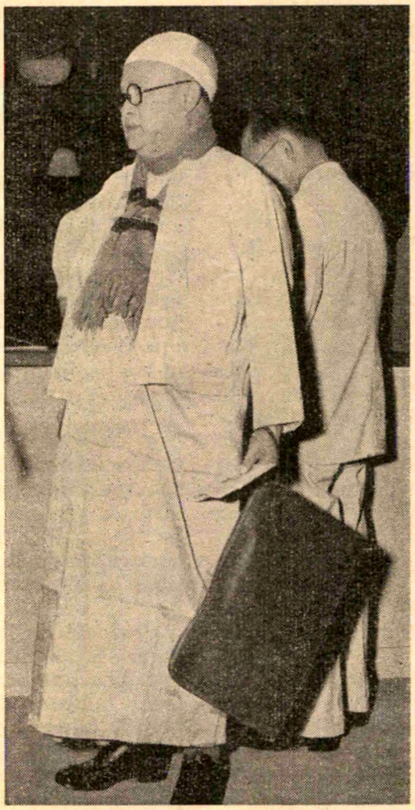
There seemed to be general agreement about the objective. Everyone felt there was a place for the management accountant in industry and a valuable function for him to perform. This movement would probably be greatly accelerated by the drive towards increased productivity.

Mr de Paula underlined the need for co-operation between the technical side and the accounting side in industry.

Main Difficulty

He continued: 'The main difficulty at the present time is to decide exactly who is going to do this work, and what qualifications he will need.

'There is the accountant in general practice, there is the one spending his full time in industry and there is the specialist in this work. Are they all to do it? If so, each should know what part he is expected to play.'



Two Congress members from Burma: Wunna Kyaw Htin U Shein and (*behind*) U Maung Maung

It would be a great pity if, as Professor Greenwood thought, the practising accountant and the accountant in industry could not come 'out of the same mould'.

'I would say', added Mr de Paula, 'that cross-fertilization is urgently needed here.'

One of the greatest problems was that concerning education. These new techniques covered a wide field and threw up many complications. The speaker praised, at this point, the advanced methods of training used in America.

Spreading the gospel

Turning to the future, Mr de Paula declared: 'What we want urgently is the spirit of spreading the gospel of this accounting work in industry. Many managements do not understand the system, a system which cannot succeed unless the managements play their part and use it.'

This was where the human touch entered the scene. Management accountants should get the confidence of the executive, explaining and 'selling' their system.

'Industry', declared Mr de Paula, 'must be made aware of the value of industrial accountants with their special systems of costing.

'If the auditors had a working knowledge of this field – and believed in it – to be able to detect that the bad spots shown by the figures in the accounts were due to faulty control and management they could then recommend the calling in of a specialist.'

No Soothsayer

Mr Risk, who also contributed to the summing-up, said it seemed evident from the discussion that the same problems existed throughout the nations represented at the Congress, and that there was remarkable unanimity on the causes and solutions proposed.

The accountant was the only person able to present an overall picture of an undertaking. He alone was able to express in common terms the wide diversity of facts and assumptions of which industrial accounting was composed. He did not, however, claim to a be soothsayer or crystal-gazer, but was more in the nature of a photographer.

Dealing with the status of the industrial accountant, Mr Risk said: 'There is a concensus of opinion that adequately to fulfil his functions he must be on a level with the heads of the other management functions – production and sales, for instance. He will not attain that position merely by asserting it is a right or necessity.

Must Earn Place

'That is endeavouring to pull himself up by his own bootstrings which is a profitless

occupation. It is for the industrial accountant to earn his place in the team by his ability, personality and integrity.'

Mr Risk added his warning against the accountant undertaking too many tasks. 'He has to draw the line between being too much of a specialist and spreading his activities too widely,' he said.

The chairman thanked Mr de Paula and Mr Risk for summing-up, and the other contributors to the discussion were thanked by the two deputy chairmen.

THE ACCOUNTANT IN PRACTICE AND IN PUBLIC SERVICE

Fourth Business Session

Lord Latham, F.A.C.C.A., President of The Association of Certified and Corporate Accountants, presided at the afternoon session which discussed 'The Accountant in Practice and in Public Service'.

The deputy chairmen were Mr A. Emile Beauvais, C.A., Canadian Institute of Accountants, and Mr G. P. Kapadia, B.COM., F.C.A. (India), the Institute of Chartered Accountants of India.

Professor A. M. van Rietschoten, Netherlands Institute of Accountants, was the rapporteur.

SUMMARY BY THE RAPPORTEUR

The rapporteur, Professor A. M. van Rietschoten, Nederlands Instituut van Accountants, then delivered his summary of the papers as follows.

On this subject, papers have come in from colleagues in the following countries: South Africa, Bolivia, Great Britain, Canada, Portugal, Sweden, United States of America.

Only in one of these has the accountant in public service been dealt with in a way that enables me to draw a comparison with the situation elsewhere.

This is the reason why in this summary I can neither aim at a comparison between the parts played in the various countries by the accountant in public service and the development of his professional activities nor at a comparison between the professional development in practice and the one in public service. I shall therefore restrict myself to a few comments inspired by the papers referred to above.

Difference of Role between Accountants in Practice and in Public Service

In the English papers the circumstance has struck me that among the accountants in public service functionaries have been included whose role differs from that of the accountant in practice in such a degree as to make it worth drawing attention to. The very name of the professional organization in which part of these colleagues have united (the Institute of Municipal Treasurers and Accountants) shows that here not exclusively and not primarily does one think of functionaries who are charged with an auditing and advising function to the complete exclusion of any managing function. It seems that with the local authorities in other countries the accountant does not primarily exercise an auditing function either, at least that is what might be gathered from the information obtained from Sweden and Portugal.

In the case of the central government, mention is made of bodies especially charged with an auditing function without managerial activities. But it has not been made clear whether in those bodies the auditing element in the central government has been assembled categorically. The impression has been given that also with the controlling authorities important auditing functions have been put in the hands of functionaries who beside it are charged with managerial functions.

Independence

It might be a good thing to investigate how far this organization works satisfactorily, all the more so when we consider that mention is made – albeit with regard to local authorities – of the general occurrence of the following combination of functions: financial adviser, cashier, paymaster and internal auditor. According to the papers the characteristic difference between the accountant in practice and the accountant in public service is generally considered to lie in the independence of the former, which naturally cannot exist in the case of the latter. By the side of this I would think that the fact that the accountant in practice is not charged with any form of management in contrast with (generally speaking) the accountant in public service, should be considered of equal importance. It will be interesting to hear what our colleagues who will deal with the accountant in industry will have to say about this matter.

In connexion with this it appears to me that the custom developing in England of accountants in practice acting as company directors is open to grave question, especially in so far as it is correct that it is this very directorship which plays an important part in the income which the accountant in practice is able to earn.

Nationalized Industries

Of special importance is the information from England about the management form of the nationalized industries, such as of late the coal mines and transport. Is the fact that the final accounts of the boards are audited by practising accountants due to legal regulations? The observation is made that those industries run by the Government present sharp differences with commercial enterprise, in the first place because there are no shareholders. This argument is beyond me. The number of persons concerned in a government industry is normally much larger than in a private business and I consider their interests to be the same.

Both the accountants in public service and those in practice express in the English papers that it is necessary for the various groups of colleagues to work together and that a disintegration into specialized groups would constitute a danger to the profession.

Also in the case of the professional training a stand is made against the introduction of subjects directed towards specialization.

Need for Accountant's Services

I do not propose to go into the historical description of the origin, the development of the profession of the accountant in practice and the rules to which it is bound in various countries. Suffice it to say that everywhere there may be perceived a quick and still spreading growth of the need for the services rendered by this profession.

While the various papers agree in emphasizing the auditing function I think that by the side of this and second in importance come the services with regard to taxes, which in the last ten years have been increasing enormously. Our American colleague reports on an agreement between certified public accountants and lawyers on a tentative statement as regards the division of work in the field of taxation.

I think a difference in accent may be concluded upon between the English and the American development as regards advice given to enterprises on the subject of effective management. Both reporters draw a comparison with the function of the physician, but whereas the American deals with conviction with the future development in this respect, the Englishman exhorts his colleagues not to be purely critical and negative in their advice.

Intelligibility of Financial Data

I will just touch lightly on what our English colleague says about the intelligibility of the financial data, which the accountant is in the habit of judging. In particular, I think that in this respect it is important to aim at accounts which can be understood by the uninitiated, because the problems with which business is faced will then be grasped in so much wider circles. With regard to this, special attention should be paid to the fundamental problem of the assessment of profit which will be discussed in another section of the Congress. Of the financial reports of the last few years it can certainly not be said that they have at all presented to the public in general a picture of the great difficulties which the sharp rise of prices have caused. It is to be feared that the difficulties which will presently proceed from great falls will not be expressed in very helpful terms either.

Meanwhile I also want to draw attention to what has been said by our colleague Mr Saunders about the wording of the certificate. Does not the fact that Mr Saunders points out the danger of the positive communication overshadowing the negative qualification point in the direction of a necessary reduction of the positive element in favour of the eventual negative communication, which after all determines the certificate? Was not this, by the way, the customary procedure in England before the stipulations in the Companies Act caused the present wording of the certificate?

Importance of the Professional Organization

Characteristic of development is the still growing importance of the professional organization. It plays the leading part in the training of future colleagues in that it organizes the examination, though it is noteworthy that as a rule it takes no part in the training proper. Training has in America, Canada and England always, for a great – and possibly for the greatest – part been postal.

This might be one of the reasons for the development of university training and education which has qualitatively better means at its disposal. The disadvantage of the latter, however, consists of a lesser degree of practical experience in the preparatory stage in the fields of knowledge required for the practising of the profession. The American paper states circumstantially that the qualifications conferred should not exclusively be awarded after the passing of an examination; with this it arrives at wishes which have for the greater part been met by the English institution of a period of articles. Moreover, the professional bodies more and more occupy themselves with research into technical problems and they promote the drawing up of reports, the conclusions of which are meant to constitute a guide for the practice of the profession.

At the same time a standard for professional conduct has been set up by the organizations and its observance is supervised by them.

Economic Independence of the Practising Accountant

A subject to which in my opinion more attention should be paid by the professional bodies is the threat to the future economic independence of the practising accountant. Is it not striking that problems of a material nature which threaten the future development should arise in a profession whose services are sought after by society in an ever-increasing degree?

I have in mind the taxation of those persons who do not enjoy the tax privileges of a labour contract. An important element in this is the impossibility of making material retirement provisions on a level similar to that enjoyed whilst still following the profession.

But even the building up of the capital necessary for the financing of a practice of any size represents a problem under the present circumstances which must be considered of importance for encouraging the young entry.

The increasing number of colleagues not in practice should not be entirely overlooked in this respect either. Our Canadian colleague has in enthusiastic words pointed out the importance of the profession in the part it plays in our way of life built upon the concept of freedom and the dignity of the individual, for which he rightly considers the permanent assurance of independence a *conditio sine qua non*. May his words make us realize that excessive taxation does not only prey upon the material side of our profession but that it is also a direct attack on the independence of our profession and all it stands for.

GENERAL DISCUSSION

Changing Pattern

Before the discussion began, the chairman commented: 'This is a subject of gathering importance for all of us engaged in the accountancy profession in the industrial world because of the changing pattern of social and economic conditions.'

A glimpse of the standing of accountants in Portugal was revealed to the Congress by Mr d'Aca Castel-Branco. In his country, he said, there was a special course for accountants and auditors, though so far the profession had not reached the standard of practice desired by all conscientious Portuguese accountants.

Mr Castel-Branco added: 'At this stage, therefore, I can only bring to the Congress one thing: the will and the hope of the Portuguese accountants to attain a standard of skill and integrity comparable to that found today in the leading countries of the world.'

Laws Criticized

Mr B. J. M. Boys (Great Britain and Ireland) criticized the laws of this country which permitted people – 'not knowing a debit from a credit' – to form themselves into a company holding itself out as an association of qualified accountants, giving its members the right to use certain letters after their names.

He went on: 'Sir Harold Howitt in his address of welcome mentioned that persons who are not members of the sponsoring bodies could legally undertake all but very little of an accountant's work, and in most cases they are not governed by any but their own code of conduct.

'They may seek to obtain clients by touting or advertising or by undertaking work at fees which would be unremunerative to a qualified practitioner.'

Mr Boys would not suggest that these people could ever be more than a minor annoyance to the larger firms of accountants.

Like Doctors

'But', he added, 'to a small firm or sole qualified practitioner they can be much more than that.'

Mr D. A. Blofield (Great Britain and Ireland) said he had been impressed by the comparison in two of the papers between the accountant and the physician.

'We, like the doctors,' he declared, 'have to investigate the root cause of a disease, carrying out research and learning how to apply a cure.'

He thought they could cure the present 'disease' – inflation. They could reduce and simplify taxation and bring a wholly new spirit into industry. 'We have the capacity and, therefore, the responsibility,' he said. 'That is the challenge today – a unique opportunity to fulfil our destiny.'

Simplicity the Key

Mr E. Caldwell (Great Britain) could see little difference between the accountant in practice and the accountant in public service. 'His techniques and training based on similar fundamentals may be different,' he said, 'but primarily we are always concerned with his personality.'

In the present age of scientific progress, an accountant might become lost in techniques, thereby complicating his vision. Soon he must discover that simplicity was the essence of life. A good accountant was, probably, fundamentally lazy. In his search for leisure he eliminated that which was unnecessary.

'Unfortunately for the good accountant in my country,' said Mr Caldwell, 'the scope of his work is often dictated by Acts of Parliament, and by other legal requirements. Instead, therefore, of utilizing his leisure in some form of "rake's progress" he must spend that leisure in an endeavour to interpret the ever-changing mind of the legislator.'

Continuous Audit

A Maltese visitor, Mr J. C. Chretien, thought that if all auditors did their best to convince their employers of the superiority of a continuous audit, they would be giving better service. 'It is better to be called at the beginning of the disease rather than to certify death,' he said.

Speaking as an accountant employed by a Central Government department, Mr J. B. L. Clark (Great Britain and Ireland) was disappointed to find no reference in any of the papers to the work of accountants in the public service in the U.S.A.

Commenting on the independence of the practising accountant, referred to in the papers, Mr H. O. H. Coulson, another British delegate, thought it wrong to limit it to that particular section of the profession.

'Independence is probably one of the virtues of our profession and especially in the public service is it desirable although extremely difficult to achieve,' he said. 'As a member of an organization one tends to develop a very proper loyalty towards it which might have the effect of silencing the critics.'

Over-specialization Danger

Mr F. C. de Paula (Great Britain and Ireland) said that accountancy was a young profession getting into its stride. With its growth in size was seen a very great extension in the area covered by its work.

Referring to the dangers of over-specialization, he said it was clear that the position of accountants as a whole, and of general practitioners in particular, must be safeguarded.

Small accountancy firms were very reluctant to call in the services of their larger brothers for fear of losing the job. The point arising from that was that as long as all practising accountants attempted to do the same work, each was a potential rival of the other.

'Should we debar the specialist from general practice?' asked Mr de Paula. 'I should not like to make any statement on that, but I do feel we should seriously consider keeping our general training broad, general, and reasonably comprehensive, and relegate this myriad of specialist subjects on which we are now embarking into post-graduate training and practice.'

Local Authority Need

The importance of training in administration was stressed by Mr G. B. Esslemont (Great Britain and Ireland). In local authority accountancy, administration had two main branches, he said. One was the control of a department and the other was the larger field of dealing with members of a council.

He added, amid laughter, 'In the local authority service the need for simplification of figures is as great as it is anywhere.'

An outline of the special conditions under which accountants work in Finland was given to Congress members by Mr Borge Forsstrom.

A word on behalf of 'the little man' in industry was spoken by Mr W. A. Harvey (Great Britain and Ireland). 'Our large and medium-sized industrial units', he said, 'have usually their own qualified staff, but the little man is wholly dependent on the practising accountant.

Romance of Accountancy

'He plays a vital part indeed in our economy and the more efficiently he plays it the better it is for us all.'

Mr H. Hayhow (Great Britain and Ireland) spoke of the work of the financial officer of a local authority. The financial officer was a member of a small group of chief officers who together used their specialist knowledge to advise their councils on various affairs.

'It is very essential, therefore,' emphasized Mr Hayhow, 'that he should acquire the techniques of management as far as handling a large department is concerned.

Also he should have some knowledge of administration to enable him to advise his council on policy.'

Mr T. E. A. Killip (Great Britain and Ireland) referred to the romance of accountancy and congratulated all the young men and women who had chosen it as a career.

First Woman Speaker

There was a special round of applause for the first woman speaker of the Congress, Dr Mary E. Murphy (U.S.A.), who said the role of the professional accountant was enhanced in importance because of the independent viewpoint he afforded business enterprise. The accountant had enlarged his perspective. Frequently he was requested to serve on a board of directors, as controller of a corporation, to sit on a government committee of inquiry or to supply data for labour negotiations and regulatory bodies.

These were a few of the activities of the modern accountant and explained why the general popularity of private accounting contrasted with public practice had never been stronger.

M J. Germain (France) made a contribution on behalf of a fellow-countryman, M P. Miot, who was unable to be present, dealing with the introduction of private property accounting principles into public accountancy.

Dr Mary E. Murphy, of the American Accounting Association, speaking during the discussion on Wednesday afternoon

Plea to Government

Mr Perry (Great Britain and Ireland) suggested that the Companies Act requirement that accountants should be members of one of four professional bodies should be extended to private limited companies.

Mr A. G. Pratley (London) said that often the professional accountant could give very useful advice on management accounting to small and medium-sized firms in more simple terms than the industrial consultant.

A plea to the executive arm of the Government was made by a Scottish accountant, Mr W. B. McArthur, who asked that when legislation was formulated there should be greater co-operation between the executive and those who had to carry it out. Often political expediency made it necessary for the minister to 'name the day' for the beginning of some new scheme without giving those whose job it was to implement it sufficient time to make the necessary preparations, he said.

Mixture of Functions

First part of the summing-up was contributed by Dr Marshall, who began by speaking of a subject which had run 'like a thread' through the discussion – the mixture of functions carried out by the financial officer and the accountant in public service in England.

'The man who keeps the accounts, looks after the cash and regulates the services', he explained, 'is the man who advises the public body and sees that due weight is given to financial points when the governing body makes a decision.'

There were two reasons why this system was adopted in this country. One was that, by the very nature of government functions, it was so easy for finance to be forgotten – and it was much more likely to be forgotten if there was a divorce between the accountant and the financial adviser.

Secondly, it helped the accountant to remember that he was the servant. 'One effect of running governmental types of undertaking', said Dr Marshall, 'is that from time to time the financial officer can get too much in the ascendant.

No Light Reading

'If the accountant is associated with the departmental work all the way through, not only keeping the books but doing the financial work and advising the governing body, he is much more likely to identify himself with the administration than if the work were divided between two separate people.'

Referring to the accounts published by local authorities, Dr Marshall declared, 'I think we have to accept the position that those accounts will always be for the specialists.

'They do not make light reading for the public. If you want to bring it home to the public you must adopt some other way and issue special summarizing diagrams.'

Turning to the training of accountants, Dr Marshall said there was a great need for a broad tuition. There was great danger of it being split up into a large number of specialist techniques.

He concluded by saying that the financial officer of a public authority had 'to try and compensate for the fact that he has no shareholders in the commercial sense and no equity on the balance sheet.'

Directorships Approved

Another summing-up was given by Mr Saunders. He spoke first of the desirability of the practising accountant holding company directorships.

'I believe', he told the Congress, 'that the practising accountant can perform a very useful service in that

way. He brings to the board meetings a completely independent viewpoint, and so long as his directorships do not take up a large part of his time and restrict his time for general practice, I think the leavening is a good thing.'

At the same time, however, Mr Saunders felt it was important that such directorships should be completely independent of the other sections of an accountant's own particular practice.

The afternoon's discussion had had two underlying features, as far as the practising accountant was concerned: the need for maintenance of independence and the need for increased efficiency.

The Weakest Link

Turning to the small practitioner, Mr Saunders reminded his listeners that the strength of a chain lay in its weakest link. 'We know the difficulties with which the small practitioner is faced,' he said. 'He has to deal with problems which do not present themselves to larger practices.

'It is up to those in the larger practices to assist the smaller men in every way they can.'

Mr Saunders concluded with this warning: 'In the search for the future, this looking ahead, we must not forget the fundamental details of our daily task.'

The speakers were thanked by the two deputy chairmen.

BANQUET AT GUILDHALL

Praise for the Profession

More than six hundred and thirty guests attended Guildhall on Wednesday evening, June 18th, at the invitation of the President, Sir Harold Howitt, C.B.E., D.S.O., M.C., F.C.A., and Council of the Congress.

Among the members of the Council of the Congress and those who accepted invitations were:

The Very Rev W. White Anderson, M.C., V.R.D., D.D.; Prof F. d'Auria; Dr Franco Antolini; Mr Roberto Casas Alatriste; Sir Frederick Alban, C.B.E., F.S.A.A.; Mr J. W. R. Alexander, F.C.I.S.; Mr Justin Alexandre; Mr A. Stuart Allen, F.S.A.A.; Mr H. E. A. Addy, F.C.A., F.S.A.A.; Mr T. Coleman Andrews, C.P.A.; Mr Charles W. Boyce, C.B.E., F.C.A.; Mr Percival F. Brundage, C.P.A.; Mr Stanley J. D. Berger, M.C., F.C.I.S.

Mr B. H. Binder, F.C.A.; Mr John Bailey, F.C.A.; Mr Gosta Bjorfors; Sir Harold Barton, F.C.A.; Mr Emile Beauvais, C.A. (Canada); Mr P. Butler, F.C.A.; Mr J. Blakey, F.C.A.; Mr H. Beer, C.B.; Mr J. C. Burleigh, C.A.; Mr A. C. d'Aca Castel-Branco; Mr Harold R. Caffyn, F.C.A., C.P.A.; Mr Benjamin R. Callirgos; Mr P. F. Carpenter, F.C.A.; Mr F. L. Closon; Mr G. A. Collins; Mr C. R. Culling; F.C.A., Dr Wilhelm Dieterich; Mr Amedeé Defosse; Mr Arthur Deakin, C.H., C.B.E.; Mr F. R. M. de Paula, C.B.E., F.C.A.

The Rt. Hon. Lord de L'Isle and Dudley, V.C., A.C.A.; The Very Rev Alan C. Don, K.C.V.O., D.D; Mr L. van Essen: Mr Arthur B. Foye, C.P.A.; Mr G. R. Freeman, F.C.A.; Sir Archibald Forbes, C.A.; Mr A. C. Faulkner; Mr Alf Fjeldberg; Mr A. A. Garrett, M.B.E.; Mr Emile Giroud; Mr Thomas J. Green, C.P.A.; Mr W. Macfarlane Gray, F.A.C.C.A.; Mr F. Glaves-Smith; Mr M. L. Gedge, Q.C.; Mr T. A. Hiley, F.C.A.(AUST.); Mr Alderman and Sheriff C. James Harman; Sir Patrick Hannon; Sir George Hamilton; Sir ;David Allan Hay, K.B.E., C.A.; Mr F. Wyndham Hirst, C.B.E.

Mr R. J. van Iper; Mr Olav Chr. Ildal; Mr H. G. Judd, C.B.E., C.A.; Mr J. Kraayenhof; Sir Russell Kettle, F.C.A.; Mr T. Edgar Killip, F.A.C.C.A.; Mr G. P. Kapadia, F.C.A.(INDIA); Mr Katsumasa Katagiri; Sir Thomas Keens, F.S.A.A.; The Rt. Hon. Lord Latham, F.A.C.C.A.; Mr C. E. Link; Sir Frank Lee, K.C.B., K.C.M.G.; Mr J. C. Latham, D.L., F.S.A.A., F.A.C.C.A.; Mr George O. May, F.C.A., C.P.A.; Mr N. R. Mody, F.C.A.; Mr C. R. Musto, F.C.A., C.A.(S.R.); Mr I. W. Macdonald, C.A.; Mr E. H. Marker, C.B.; Dr A. H. Marshall, PH.D., F.I.M.T.A., F.S.A.A.; Mr F. A. A. Menzler, C.B.E.; Prof. Gen Murase.

Mr Aage Nielsen; Mr C. H. Nicholson; Mr Gordon Newton; Mr Bertram Nelson, F.S.A.A.; Mr T. H. Nicholson, F.C.A., F.S A.A.; Mr C. H. Pollard, O.B.E., F.I.M.T.A., F.S.A.A.; Mr P. J. Purtill, F.C.A., F.S.A.A.; Mr N. Pacquet; Mr W. S. Risk, C.A., F.C.W.A.; M F. M. Richard; Mr T. B. Robson, M.B.E., F.C.A.; Prof A. M. van Rietschoten; Mr Genshin Shimoji; Mr Oscar Schmidt-Pizarro; Mr A. F. J. Sears; Dr Hans Schick; Mr J. Harold Stewart, C.P.A.; Mr F. W. H. Saunders, F.C.W.A.

Mr Gilbert D. Shepherd, M.B.E., F.C.A.; Mr James Scougal, F.I.M.T.A., F.S.A.A.; Mr E. W. Savage, F.C.A.(AUST.); Mr John L. Somerville, F.R.S.E., C.A.; Mr G. F. Saunders, F.C.A.; Mr H. Stevenson, F.C.A.; Mr Wunna Kyaw Htin U. Shein; Mr S. C. Tyrrell, F.C.W.A.; Mr Alderman and Sherriff D. H. Truscott, T.D.; Mr J. Millard Tucker, Q.C.; Mr Erkki Usva; Mr Albert Veyrenc; Mr A. C. Velling; Sir Nicholas Waterhouse, K.B.E.; F.C.A.; Mr Frederick Wilson, O.B.E., F.A.C.C.A.; Mr Jack Whittle, F.I.M.T.A., A.C.A., Mr Richard A. Witty, F.S.A.A.; Mr H. Yates.

Mr Peter Thorneycroft, M.P., President of the Board of Trade, Miss Florence Horsbrugh, C.B.E., M.P., Minister of Education and Sir David Maxwell Fyfe, Q.C., M.P., Home Secretary, were prevented from attending by Parliamentary duties.

Wide Outlook

After the company had honoured toasts to the Queen, the Royal Family and the 'Sovereigns and Heads of States Represented', which were proposed by the President, Mr H. Garton Ash, O.B.E., M.C., F.C.A., rose to propose the health of the Lord Mayor and the Corporation of London.

He began by informing Congress members and their guests that Sir Leslie was the 630th holder of the office of Lord Mayor. It was a mark of the wide outlook of the City that the present civic head was a native of Australia.

'It is, I believe,' said Mr Garton Ash, 'the first time in history that a son of Australia has been Lord Mayor of London.'

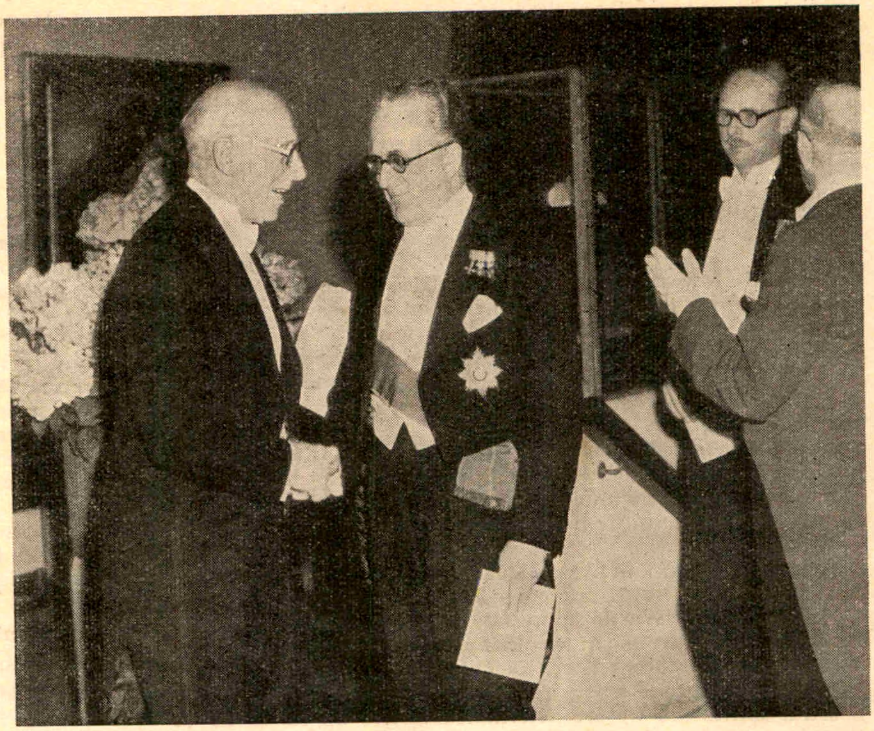
The calm confidence with which Sir Leslie carried out his duties was an encouragement, not only to the citizens of London but to a much wider field throughout the world.

After welcoming the Sheriffs of the City, Mr Garton Ash turned to the Corporation itself. 'It exists for the public good,' he declared, 'and it can point with just pride to its liberal and just administration of the present day.'

Of the City of London generally, he said, 'Its community has acquired a unique knowledge and experience of world trade and affairs, and that knowledge and experience are still at the service of all who are able to take advantage of them.'

Responding, the Lord Mayor referred first of all to the fact that he, an Australian, should be able to hold one of Britain's honoured positions, and added that Canada had supplied this country with its first prime minister from one of the self-governing Dominions.

Amid laughter he went on, 'I am hoping, perhaps, New Zealand will supply a future Archbishop of Canterbury. South Africa might well – seeing the gold reserves she has in Mother Earth – provide a Governor of the Bank of England. India, Pakistan and Ceylon might make their contribution in the form of a Lord Chancellor and other equal, or near-equal high officers of State.'



At the Banquet in Guildhall on Wednesday night the President, Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., greets Lord Radcliffe, P.C., G.B.E., Q.C. Mr C. H. S. Loveday, A.C.A., is on the right of the picture

More Serious Note

Sir Leslie continued: 'From the number of times the health of the Lord Mayor has been drunk in the course of a civic year one would expect him to enjoy perfect health in perpetuity.'

He added, 'But that has not been my experience.'

On a more serious note, the Lord Mayor declared: 'It is my duty to extend to your Congress and to every delegate and to your guests tonight a very warm welcome to this City.'

Since Queen Elizabeth I opened the Royal Exchange in 1571 the City of London had been regarded as the commercial centre of the world.

'Those of us', said Sir Leslie, 'who are engaged in commerce and industry know only too well that the hardest taskmaster is the profit and loss account. Without the services and without the integrity which your skilled and most important profession bring to this country we would soon lose our place in the business world.'

He concluded: 'The fact that you come not only from all parts of the Commonwealth and Empire but also from so many other friendly countries adds greatly to the pleasure I have in welcoming you to the City this evening.'

Common Tie

Submitting 'The Accountancy Profession', Lord Radcliffe said he welcomed the chance as a lawyer to propose the health of accountants and to pay tribute to 'the things I have learned from my little knowledge of accountancy'.

He recognized that the profession of accountancy had much in common today with the profession of the law. 'We are', he said, 'both creatures of the modern world. We owe our position to that great rise of commercial and industrial energy that marked the beginning of that world'.

There was laughter as Lord Radcliffe went on: 'There were, of course, lawyers before that time – and I suspect there were accountants. Lawyers who, in those earlier days, found their arguments were tending to arrive at a conclusion hostile to the governing powers were apt to find themselves in prison.

Free System

'And if you had shown a medieval statesman a consolidated balance sheet and profit and loss account drawn up under the requirements of the most recent Companies Act I think you would have been burnt at the stake for indulging in Cabalistic signs or for invoking the improper aids of Black Magic.'

After the laughter had subsided, the speaker continued: 'We belong to the modern world. We belong to a system quite recent in the history of the world of free intercourse, free exchange and free speech. If that system goes down we go down with it.'

Lord Radcliffe thought the world had much to be grateful for to its accountants. 'I think we have come to look to you to do your work, as it can be done, skilfully, with assiduity and with a fine impartiality,' he said.

'We have come to look to what has become a great profession for the exercise of those qualities. Keep them, exercise them, and one stable element in our society is preserved.'

Mystery Men

Accountants to him were still 'men of mystery' to some extent, said Lord Radcliffe, adding this description of them:

'You move on the whole unostentatiously about the world upon your important missions, soft black hats on your heads and Destiny in your brief cases, attending here the birth pangs of a new issue or reconstruction, attending there the sad obsequies of a liquidation – welcome and respected even when you bring bad news.'

Applause greeted his next remark: 'At least in the free world about which you move, words like "liquida-

tion", "reconstruction" and "reduction of capital" have no sinister political meanings.

' "Liquidation" does not mean putting your enemies to death. "Reconstruction" does not mean a violent revolution and "capital reduction" does not mean cutting off the head of your enemy."

Lord Radcliffe ended by saying that the accountancy profession was one to which it was an honour 'to raise one's glass for a toast'.

Accountancy's Friend

Sir Harold Howitt, in reply, drew applause when he thanked Lord Radcliffe for deputizing at such short notice for Mr Thorneycroft. 'But', he warned, 'he called us "Men of Mystery" and disclaimed knowledge of accounts. When an eminent Q.C. begins to talk like that when you are in the box it is time to watch your step.' (Laughter.)

Lord Radcliffe had been a great friend to the accountancy profession. As Chairman of the Royal Commission dealing with a review of all the country's income-tax problems, he had many contacts with the profession.

'We wish him luck in his arduous task,' declared the President.

He continued: 'We do appreciate so distinguished a member of another and much older profession coming along to say the things Lord Radcliffe has just said. We are deeply proud of our profession, though in no boastful spirit, and we are determined to live up to the high standards which our forebears have established.'

Fundamental Truths

In accountancy the fundamental truths were very simple. They were centred round the 'vexed and difficult' question, especially in these days, of making ends meet – or knowing if they did not meet. When, as now, the financial problems were so complicated there was a great risk that these fundamental truths would be scrapped, sometimes as a result of wishful thinking.

'The great problem of the accountancy profession', asserted Sir Harold, 'is to remain faithful to these fundamental truths, to abide by them and yet to retain a receptive mind to be able to march with the times and improve on the standards we have worked to before.'

Two Memories

Those were the problems which accountants were attempting to work out at the International Congress in London, he said.

'I suppose', went on the President, 'two special items of our doings this week will stick in our memories after the Congress is over, remaining with us for ever. One is the service on Monday morning at Westminster Abbey. In the presence of the Archbishop, I would like', he said, 'to thank the Dean of Westminster for the delightful and inspiring service and address with which he started the proceedings of the Congress.'

'The other memory', declared Sir Harold, 'will be that of our banquet in this great, historic Guildhall tonight.'

After expressing his gratitude to the Corporation of the City of London for making it possible to hold the event in that building, he spoke with obvious pleasure of the presence of London's First Citizen.

Honoured Part

Of the City, Sir Harold said: 'Much enterprise, much ability and much pluck have contributed over the ages to make the City of London what it is and in that development accountancy has played an honoured part. Long may it so continue, not only in this country but the world over.

'And long may we as a profession endeavour to hold the balance fairly between man and man and between country and country. I am sure that it is with ideals no lower than these that you expect me to respond to the toast of our great profession.'

Another response to the toast came from Mr J. William Hope, C.P.A., President of the American Institute of Accountants.

'We across the seas', he declared, 'are united with you in the common struggle to preserve our principles. This is a responsibility that rests on all men who cherish freedom – and the accountant is fully aware of his responsibility in this regard.'

In this situation, thought Mr Hope, the accountant had a unique opportunity. He could contribute mightily to the defence of these principles by guiding the economy of his nation with wisdom.

General Confidence

'He can', asserted the speaker, 'guide those affairs in such a manner as to increase the nation's productivity and thus diminish its discontent.'

Mr Hope gave a warning that if ever general confidence in the accountant was lost it might mean 'not only the end of his profession, but the end of the co-operative spirit between all spheres of society which is essential in democracy'.

Mr C. Percy Barrowcliff, Vice-President, proposing the toast to the guests, said that many of them occupied positions of high responsibility in the public life of the country. The wealth of their service showed how well placed that responsibility had been.

'This country,' declared Mr Barrowcliff, 'like so many other countries, has been singularly fortunate in the disinterested public service rendered by its leading men and women.'

Especial Pleasure

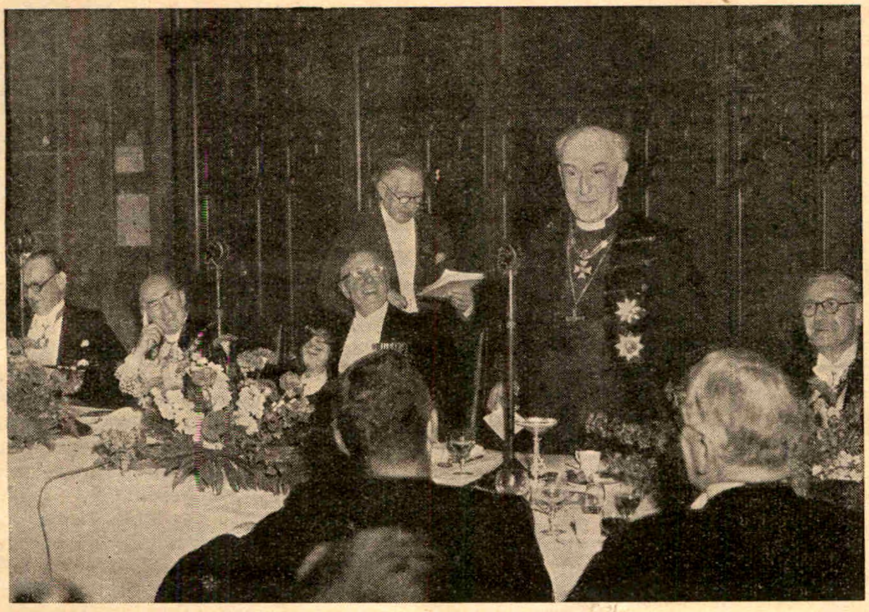
Of the distinguished members of the accountancy profession present, he said: 'It will be an especial pleasure to raise our glasses in cordial greeting and goodwill to them.'

The speaker referred to the satisfaction of the profession in Great Britain and Ireland that so many of their colleagues from overseas had been able to attend the Congress.

'And', added Mr Barrowcliff, 'we are not without hope that our common accountancy problems and our mutual understanding of one another's point of view may make some small contribution to a better understanding and sympathy between the nations of the world.

'Peace is in our hearts – as it must be in yours – and I assure you all from lands near and far that our hearts are warm and our imagination is stirred by your presence here tonight.'

The Archbishop of Canterbury said he had a reason for being particularly pleased at being invited to the banquet.



His Grace The Archbishop of Canterbury, The Rt Hon and Most Rev Francis Fisher, D.D., responds to a toast at the Banquet in Guildhall on Wednesday night. *Seated facing camera (left to right):* Mr C Percy Barrowcliff, F.S.A.A., Vice-President of the Congress; the Lord Mayor of London; Sir Harold Howitt, President; The Lord Latham, F.A.C.C.A.

The qualified accountant demonstrated that there was rooted in Man that process – 'that thing called original sin'.

Amid laughter, Dr Fisher commented: 'If there was not, you would not be half as much employed as you are.'

Disturbing Fact

There was, however, one disturbing fact about the profession. 'All experts', he observed, 'tend to wrap up their expert trade so as to make it a mystery no longer understood by the ordinary people – and that at once gives rise to a dangerous situation.

'It is precisely what theologians do,' went on the Archbishop, amid laughter. 'By the end of a theological discourse you have forgotten that religion, in essence, is a very simple and straightforward practice of a number of duties and obligations.

'Accountancy, like economics and everything else, has become so intricate that the ordinary person wonders whether the accountants have lost all touch with the simple things.'

Primarily, the only lasting value in the world was the relation between persons.

Essential Service

'I was', he said, 'for a considerable period of my life the head of a large and important society whose finances were on a considerable scale. I was headmaster of a school and I had the duty of administering the finances of that body.'

The governing body were advised by a 'very excellent and eminent' chartered accountant and it was from him, said Dr Fisher, that he received the biggest compliment he had ever received in his life.

'That man said to a friend of mine that if I had entered the profession of accountancy' I would have got to the top of the tree.' (Laughter.)

There was renewed laughter as the Archbishop added: 'I myself had some doubts because most of my financial endeavours were to deceive my governing body.'

Speaking in praise of accountants, he declared: 'They are, as they well know, an absolutely essential service. It was Napoleon who said that every army marches on its stomach. Every modern society, I think, rests upon its accountants.

Accountants' Duty

'I regard them as an immensely satisfying service, for this reason: there has been a good deal of reference to freedom, but you want to qualify freedom to a certain extent. The qualified accountant gives a demonstration of the true account of freedom in which he is always the servant of the facts and cannot manipulate the facts to suit his own use.'

There were quite a number of people who still thought that freedom was manipulating the facts to suit themselves.

'You', he told his listeners, 'stand as a humble profession which recognizes it is your duty to be obedient to the facts, and to be the servants of the truth and not the manipulators of the truth.'

Figures *not* Ultimates

'Figures', stressed Dr Fisher, 'are not the ultimates. They are to be made use of by men for their own social purposes, and what matters more than the things men use – whether they are figures or anything else – is how people govern themselves and make use of the things God's Providence has provided.'

Again the speaker emphasized that the 'only real problem' in the world was the problem of human relations.

'In my opinion,' he declared, 'the problem of human relations can never be solved unless it is preceded by a solution of the relation between Man and God.'

That was why he was so pleased that the Congress week had started with a service in Westminster Abbey.

Dr Fisher caused laughter when he told the company that during his recent visit to the United States of America he was variously described in the American newspapers as the 97th, 98th, 99th, 100th and 105th Archbishop of Canterbury.

Smooth Organization

In fact, he was the 99th Archbishop. 'But', he added, 'I have been sorely tempted to call myself the 100th so that I can put up my century.'

Another response to the toast was contributed by Mr Lzn van Essen, who is President of the Netherlands Institute of Accountants. He complimented especially all those who had helped to organize the Sixth International Congress.

'With its five sessions and thirty-five papers,' he said, 'and its social events and many other things, it deeply impresses us. An enormous amount of work must have gone into the organization to make it run so smoothly.' Mr van Essen concluded: 'You have made all your visitors feel completely at home.' M Max André, head of the French delegation, spoke warmly of all that Sir Harold Howitt had done to make the Congress so outstanding a success. Sir Harold, responding briefly, was greeted with loud applause.

A DAY OF NON-PROFESSIONAL ACTIVITIES

Fortune smiled and Thursday's weather proved generally to be ideal for the programme of tours and other recreational activities that had been arranged. True, a high wind sprang up in the afternoon at Wentworth, where the golf competitions were held on the two courses. And, no doubt, it was a little chilly for the large party which toured the Port of London on board S.Y. *St Katharine*. But this in no way diminished the enjoyment of those taking part in either event.

Hampton Court and Windsor

Members who visited Hampton Court and Windsor Castle – past and present homes of Royalty – stopped for tea at Roehampton and had a glimpse of the tennis courts and polo ground that have been the scene of many international contests. Those who visited the various places of interest in London, which included the Tower, St Paul's, and the Houses of Parliament, were most impressed with all they saw.

GOLF COMPETITION

Fifty-four members, delegates and guests took out cards in the golf competitions which were held in good weather amid the attractive surroundings of the Wentworth Club on Thursday, June 19th.

The Medal Competition

The medal competition was played over the long and testing West course which has a standard scratch score of 75. In the circumstances, many of the scores were on the high side and only one competitor was able to beat the scratch score of the course. The winner of the medal competition was Mr W. J. H. Rennie, a guest of one of the members, who, playing from a handicap of eight, had a gross score of 82 and a net of 74. This was also the best gross score but Mr Rennie elected to take the handicap prize; the scratch prize being taken by Mr M. T. W. Easby, of Tadworth, with a gross score of 83 and a net score of 80. As no competitor was allowed to take more than one prize, the second prize went to Mr J. L. Somerville, who is Vice-President of the Institute of Chartered Accountants of Scotland. His net score of 82 tied with that of Mr J. W. Johnstone, of London, who elected to take the second prize in the Stableford competition. The prize for the best return over the last nine holes resulted in a tie between Messrs A. D. Walker, of Liverpool, J. K. Dick, of London, and J. Chambres, all of whom returned net scores of 41. The prize was won by Mr J. Chambres who had the best return over the last six holes.

The Stableford Competition

In the Stableford competition, which was played over the slightly easier East course (standard scratch score 72), the first prize was won by Mr T. J. Green, of New York, who scored 35 points. Mr J. W. Johnstone won the second prize with 34 points. The best return over the last nine holes was by Mr J. W. Johnstone who scored 21 points, but having taken the second prize, the prize was won by Mr K. le M. Carter, of Canada, with 19 points.

The full returns were as follows:

With Capt. Brownfield of the S.Y. *St Katharine* on Thursday are (*left to right*) Mrs W. L. McDonald and Mrs G. S. Currie of Canada, and Mrs W. J. P. Moonan of Ohio, U.S.A.

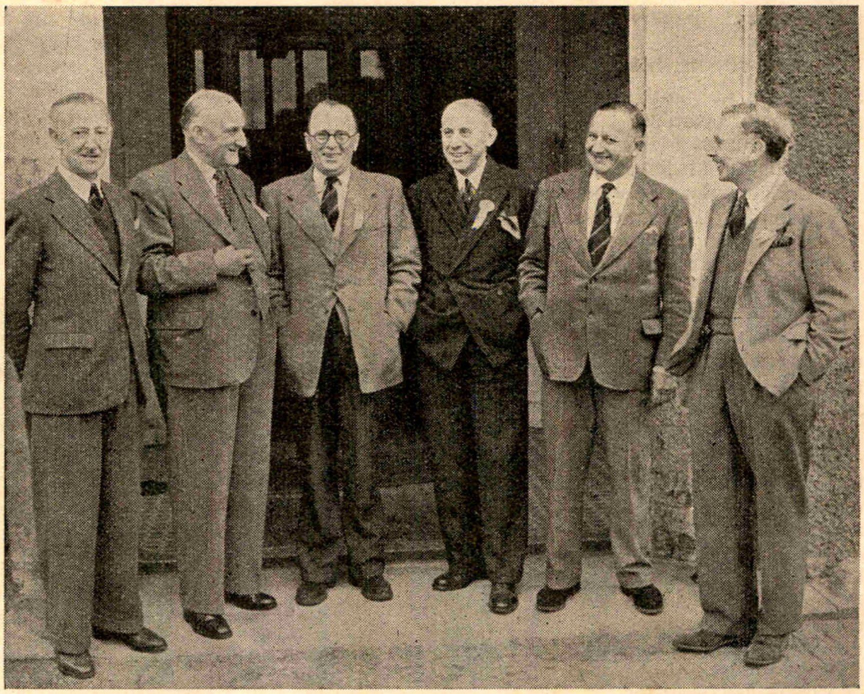
MEDAL COMPETITION
(WEST COURSE)

W. J. H. Rennie, 82 – 8 = 74; M. T. W. Easby, 83 – 3 = 80; J. W. Johnstone, 88 – 6 = 82; J. L. Somerville, 93 – 11 = 82; J. K. Dick, 85 – 2 = 83; J. G. Girdwood, 91 – 8 = 83; J. Clayton, 91 – 7 = 84; V. R. V. Cooper, 94 – 10 = 84; J. Love, 101 – 17 = 84; C. M. Stuart, 93 – 9 = 84; H. Stevenson, 97 – 12 = 85; M. G. J. Harvey, 98 – 11 = 87; J. Chambres,

99 − 12 = 87; A. D. Walker, 102 − 14 = 88; P. C. A. Smalley, 99 − 11 = 88; A. Stewart, 101 − 12 = 89; N. M. Ireland, 95 − 5 = 90; J. N. Whitmill, 109 − 12 = 97.

STABLEFORD COMPETITION (EAST COURSE)

T. J. Green (14), 35 points; J. W. Johnstone (6), 34; J. G. Girdwood (6), 33; M. T. W. Easby (3), 32; A. D. Walker (14), 32; H. Stevenson (11), 31; E. Barlow (19), 29; P. F. Brundage (15), 29; W. E. Parker (11), 29; J. L. Somerville (11), 29; K. le M. Carter (22), 27; J. Chambres (12), 27; P. C. A. Smalley (11), 27; J. N. Whitmill (12), 27; A. C. Greene (11), 26; D. W. Pratt (19), 26; D. Ross (13), 26; M. G. J. Harvey (11), 25; J. M. Somerville (8), 25; H. Crawford Thomson (12), 24; E. H. Wingfield (14), 24; K. Forster (20), 23; S. Berlanny (18), 22; G. H. Cann (9), 22; H. V. Kirk (17), 22; C. D. Gairdner (11), 21; J. Love (24), 21; N. M. Ireland (5), 21; W. J. H. Rennie (8), 20; J. C. Walker (17), 19; S. W. Penwill (18), 18; R. Duncan (18), 16; L. R. Elcombe (19), 16; R. Higham (18), 14; G. L. Weisbard (24), 12.



A group outside the clubhouse at Wentworth on Thursday. *Left to right:* Mr E. H. Wingfield, F.C.A., Mr Percy Toothill, F.S.A.A., Mr D. V. House, F.C.A. (Chairman of the Congress Golf Committee), Mr J. L. Somerville, F.R.S.E., C.A., Mr L. R. Elcombe, F.C.A., Mr C. D. Gairdner, C.A.

THE INCIDENCE OF TAXATION

Fifth Business Session

[T]axation, once a revenue-raiser, has become a political [w]eapon for redistributing income and regulating social [c]onditions, altogether a bad trend, particularly for industry and commerce.

That summarized the feeling of many speakers – the British in particular – who took part in the discussion on 'The Incidence of Taxation', which occupied the last two sessions of the Congress on Friday, June 20th.

Mr C. H. Pollard, O.B.E., F.S.A.A., F.I.M.T.A., President of the Institute of Municipal Treasurers and Accountants, presided at the morning session, and Mr S. C. Tyrell, F.C.W.A., President of the Institute of Cost and Works accountants, in the afternoon.

The deputy chairmen were Mr R. D. Brown, F.P.A.N.Z., New Zealand Society of Accountants, and Mr Olav Ildal, Norwegian Society of Chartered Accountants.

SUMMARY BY THE RAPPORTEUR

The rapporteur, Mr Percival F. Brundage, C.P.A., American Institute of Accountants, then delivered his summary of the papers in the course of which he said:

Incidence is defined as the falling of a tax upon a person as a burden which he is unable to shift to another. It was obviously impossible for those who prepared the papers to discuss the ultimate incidence of all of the complex taxes levied in each of the countries they represent. A large part of the total tax burden is levied on corporations in the first instance but must ultimately fall on individuals as Mr Green points out.

Most of the authors accept the view that redistribution of wealth and income is a conscious purpose of taxation in their respective countries, which means that the heaviest tax burden is borne by the possessors of the larger amounts of income. They point out, however, that the effects of taxation are felt by everyone, even the recipients of special benefits and subsidies.

Consensus of Opinion

In studying these interesting papers I was impressed with the similarity of the comments in spite of the many differences in the taxes imposed in the seven countries represented. There seems to be a consensus that in all countries taxes are too numerous, too complex and too burdensome. Excessively high rates are stifling business growth, deadening incentive, discouraging savings and encouraging extravagance in deductible expenditures. Tax evasion is growing. Tax avoidance is universal. The tax aspects of a transaction have become the most important factor in influencing business decisions.

Efforts to increase the material well-being of the lower income groups have resulted in a diversion of effort from production and have impaired the moral standards of the rich and poor alike threatening also their future well-being. This seems to be the prevail-

ing note in the papers we are discussing this morning.

Adam Smith's Principles of Taxation

Several of the authors go back to Adam Smith's principles of taxation:

Assessment according to ability to pay.
Certainty of determination.
Convenience of payment.
Economy of operations.

When tested by these rules many of our modern tax systems are found to be wanting.

Mr Percival F. Brundage, C.P.A. (U.S.A.) rapporteur at the concluding session on Friday

Both Mr Horley and Mr R. D. Brown point out the inflationary effects of high taxation in Australia and New Zealand. This has not been sufficiently stressed in the United States where it is hailed as anti-inflationary. All of the moneys collected by taxation and more, too, in several countries is spent by the governments so there is no lessening of money in circulation, while the tendency of the individual 'towards recklessness inexpenditure of a deductible nature' is very noticeable.

Relief from Double Taxation

Mr Horley refers to an interesting anomaly in the convention for relief from double taxation between the United Kingdom and Australia. Persons who are resident in both countries are not deemed to be resident in either country. In general, however, considerable progress has been made towards the avoidance of international double taxation through treaties which have been approved since the last international congress on accounting.

Mr R. D. Brown calls attention to the aggregation of incomes of husband and wife where each exceed £200 and taxation as one at higher rates. This is the direct opposite of the income-splitting provision in the United States under which the incomes of husband and wife can be added together, divided by two, and the tax computed separately on each half.

Mr Brundage said he had been asked by Mr Brown to draw attention to an amendment in the paper: at page 74, line 24, the words 'regardless of its original money value' should be substituted for 'at its full original value'.

Mr Kapadia gives an interesting illustration of the decreased total yield in India as taxes become excessive. In order to evade the heavy income-tax no record may be made of some of the purchases and sales which are transacted in cash. The result is that in addition to the loss of income-tax – the sales tax also is lost. Cash transactions have unfortunately been utilized for this purpose in other countries as well.

Mr Kapadia regrets that in formulating tax policies more attention is not paid to preservation of incentives for expansion of industry and the launching of new enterprises.

Imposition of Taxes Payable Locally

Mr Kjeldsberg gives us an interesting account of the authority of municipal councils in Norway to impose taxes payable locally. The principle of municipal integrity in economic matters is followed in income and other taxes. Assessment and computation are carried out through elected municipal bodies. He refers to a recent step contemplated, namely, special tax relief for part of the country, northern Norway, which for reasons of nature is less developed than the rest of the country. A constitutional question has been raised against this special relief.

In the U. S. we seem to have no compunction in taxing corpo[r]ations and citizens [of] the wealthier state[s to] give relief to the fa[rm] areas and inaugura[te] federal projects like flood control and production of power.

Mr Lönnqvist brings out the difficulties that the accountant encounters in Finland, when high taxes are imposed, because of the temptation of fraud. He traces the influence of inflation on taxation, how the tax increases automatically under the progressive scale of rates and accelerates the inflationary spiral. He hopes that the enormous amount of time now spent on tax calculations, tax control and litigation may be used in the future for more useful purposes. He emphasizes that profits computed on historical cost result in greater taxation.

In my opinion, however, continued Mr Brundage, until the alternative theories of replacement cost etc. are recognized as accepted accounting principles, the fiscal authorities are unlikely to accept depreciation allowances based on other than historical cost. The Institute of Chartered Accountants in England and Wales has recently suggested a system of replacement allowances for tax purposes which may prove an acceptable alternative.

Improvement in the Standard of Life

Mr Burr closes his paper with some very interesting questions which I hope will be covered in our discus-

sion period. Improvement in the standard of life of the nation and in the operation of the taxes, he says, may in the future result from the following:

(a) Substantial economies in government expenditure of various kinds.
(b) Reduction in rearmament expenditure as soon as possible.
(c) A gradual extinction of food subsidies by compensating real income benefits through increased production and lower prices.
(d) The possible transference of a state-maintained health service to one more nearly approaching a true and actuarially self-supporting insurance scheme, perhaps of a voluntary nature.

We would all, I think, concluded Mr Brundage, welcome a similar programme.

GENERAL DISCUSSION

The first speaker in the discussion was Mr G. P. Kapadia, of India, who stressed that although a country's political set-up governed the financial policy, the financial structure itself had a definite impact on the political scene. This made it important, he said, for accountants to devise a system that was as nearly ideal as possible.

Referring to the taxation position in his country, Mr T. Kjeldsberg (Norway) said that in the national budget the total tax revenues were assessed at about 4,900 million croner, or 31·7 per cent of the estimated national income, but this was almost exactly five times the total taxation revenue in 1939–40.

The greatest increase was to be found in direct government taxes on capital and income. The rate of capital tax alone had been raised to five times the pre-war level.

Trade Policy

Mr Kjeldsberg also said that direct taxation in Norway served a political end in a different way than previously. It was used as a means to direct activities along the prevailing lines of trade policy. Although special taxation rules had been applied to discourage investment, it had been proposed to operate taxation relief in northern Norway to attract capital.

A French visitor, M J. Poly, said that heavy taxation had not achieved a sound balance of the budget in his country. Increased taxes had weighed heavily on price increases and had developed a fear of them.

The incidence of taxation had been enlarged by the fact that the profits tax was not allowed to be deducted from the profits in determining the tax basis. The rise in prices had contributed to an increase in the burden on the State which was both a customer and an employer, thus increasing the budget deficit.

It was this situation M Pinay, the Prime Minister, had tried to meet with his new programme. 'The solution is not entirely satisfactory,' said M Poly, 'but it is preferable from the accountants' point of view than constant and hetrogeneous adjustments.'

Narrow Front

Disappointment at the 'narrow front' on which contributors had dealt with the subject was expressed by Mr J. F. Van de Laan (Holland). 'They have all given excellent reports on the methods of taxation in various countries, but they have said too little about the effects of those methods on the business economy as a whole and the financial position of industrial undertakings in particular,' he asserted.

The broad general effects of taxation were, surely, every bit as important to accountants as the techniques of its calculation, particularly since in most countries, nowadays, taxation was used by governments as a political instrument to force the economy of the country into a predetermined direction and to redistribute the national income.

'It is an important duty of the accounting profession to emphasize persistently and continually the dangers of economically unsound taxation policies, particularly by way of hidden capital levies which drain the capital potential of industry,' declared the speaker.

Mr H. A. Adams (Great Britain and Ireland) drew the attention of Congress to 'one section of our national life which is finding the burden of taxation too hard to bear – new companies formed to explore and develop new fields of activity'.

In days gone by, such companies were not frustrated by high taxation and were able to plough back profits into the business for purposes of expansion, he said. Today, however, there was no 'ploughing back' because the tax authorities had done all the 'raking out' and, as a result, the world was being starved of new ideas and new techniques.

Local Boards

'I sincerely hope,' said Mr Adams, 'and I am sure that many of you will share my views, that the organizers of this Congress will continue their good work by making quite sure that our deliberations here today receive the publicity they deserve.

'By that means politicians of all creeds may be sharply reminded of the devastating economic effect of the present high levels of taxation.'

A Finnish accountant, Mr Jonne Anttonen, said that his country's taxation law contained a stipulation under which a local government taxation board could determine the tax 'deemed appropriate' even if the enterprise had operated at a loss or its income was negligible.

A similar stipulation had been included also in the State income taxation but, fortunately, its application as yet had been more restricted.

Another British speaker was Mr B. M. Berry, who commented that a point which had been under-emphasized was the apparent unfairness of taxation incidence between taxpayers. This arose in several ways: one, by varying the rates; another by assessing in certain cases profits that were not in fact profits.

Depreciation Basis

Dealing with depreciation allowances he said he would be very happy if the Inland Revenue made an adjustment towards the cost of replacing his clothes and of maintaining his house, but these are purely personal expenses. 'If depreciation is to be allowed at all it is because it is a business expense, and there is a necessity to establish what is a fair figure,' he declared.

Mr Berry also wished that the Inland Revenue would cease to call taxes by names which meant nothing. The British Schedule A tax bore no resemblance to income-tax, though it was classed as such. Rather, it was a property tax and came within the same category as motor-car taxation.

Also from Britain, Mr A. W. Fryer commented on Mr Burr's references to high taxation and said there

could be no easy solution to this problem. Increased productivity would not wholly provide the answer. 'For an overall relief in taxation,' he said, 'we have to look to a decrease in government expenditure. Whilst there should be rigid economy in all forms of government expenditure, it would be a retrograde step if there was a curtailment in housing or the health services.'

Reduce Defence

Mr Fryer criticized the expenditure in Britain on national defence, which he thought came quite naturally within any discussion on the incidence of taxation. This at present constituted one-third of the national expenses and there should henceforth be a progressive reduction of armaments to ease the tax situation.

Mr J. D. R. Jones (Great Britain) considered that the kind of full employment Britain had had from 1945 – over-full employment – was synonymous with inflation. 'This may not be a bad thing in itself, yet in order to confine inflation within reasonable bounds the Government, in addition to imposing a multiplicity of controls, has maintained taxation at a penal level. Such high taxation is itself inflationary. There you have a dilemma of modern government finance.'

The level of taxation imposed on industry as part of the economic and social policies of the Government, had left too little to finance the equipment needed for increased productivity; and now there was to be a new excess profits levy, a 'thoroughly bad tax no matter how it is amended by Parliament'.

Iniquitous System

'I wonder if there is another country with such an iniquitous three-tier system of taxation on company profits – income-tax, profits tax and excess profits levy – as we have,' he said.

Irish income-tax was modelled closely on the British system, stated Mr D. McGuane (G.B.I.). The country's principal taxing statute was still the Income Tax Act of 1918.

Dealing with the decade ending with the tax year 1949–50, he said, profits assessable under Schedule D of the Irish code (profits from trades and professions) increased from £24 million in 1939–40 to £48 million; wages and salaries assessable increased from £20·7 million to £61·1 million; income derived from the ownership and occupation of land increased from £5·5 million to £6·9 million.

Mr McGuane concluded: 'The natural tendency for professional bodies is to limit action to providing advice on technical matters and submitting memoranda to committees of inquiry. But something more is called for when the burden of taxation is as heavy as at present.'

Public Pronouncements

'The various accountancy bodies should not hesitate to issue public pronouncements on what they consider undesirable in existing or pending tax legislation, for in so doing they would be performing a public service and would enhance their own status.'

M P. J. Dreyer of France reminded delegates that if productivity fell from 100 to 25 the income-tax also fell, but from 100 to 5, so that to obtain the same tax product in a country where productivity was only 25 per cent of that in another country, the taxes must be five times as heavy.

'If the main purpose of taxation remains to cover expenditure for the general good,' he continued, 'figures taken from our colleagues' reports show that in many countries tax-rates have reached such a level that they may be justified only when these countries have to repair war damage or when they have to protect their freedom. But if it is admitted that the additional purposes of taxation, and especially the redistribution of incomes, become the main purpose of taxation, I cannot see any good reason for these rates to go down.'

Mr C. A. Newport (Great Britain and Ireland) regretted that the report of the Government Committee on the Taxation of Land Values had not been published and available to the British contributors before they wrote their papers.

Rail and Air Communications

An Australian speaker, Mr J. W. Roberts, referring to the fact that it would take £80 million to provide rail and air communications to link the country's underveloped areas with the centres of population, said that the money would have to come not only from home taxation but from abroad.

'With Australian taxation at its present level it is not going to be an easy task to convince industrialists in Britain or America that they should invest very large sums, at a not inconsiderable risk, with the prospect of having to pay three taxes on its earnings,' he said.

'Would it not be better to have a period during which we will make deals with industrialists from abroad and say to them "we will give you the opportunity to develop your industry for the first ten years during which your taxes will be placed in abeyance".'

New Purpose

Mr K. T. Newhouse (Great Britain and Ireland) pointed out that the writers of the papers all referred to the fact that the taxation of profits and income had reached a level at which the incentive for private enterprise was seriously restricted.

'This is partly due to a new purpose of taxation,' he declared. 'In the past, taxation was exclusively levied to secure revenue for the Government. Nowadays in many countries, profits and income are also taxed in order to redistribute income. There is a danger that in trying to achieve this objective, taxation is imposed at rates which directly restrict or at least impede economic progress.'

This view was underlined by another British speaker, Mr S. P. Quick, who asked, 'We are quick enough to tell directors when we think they are not being financially prudent, but are we satisfied that we have given our countries the same unbiased opinion on national financial imprudence with the same weight that we bring to bear on those directors?'

Pakistan Pattern

Mr Ahmed B. Khan said that the pattern of taxation in his country, Pakistan, had so far been based on the British model, but in recent experiments after the attainment of independence, efforts had been made to try to develop the method of taxation to suit the genius of the people and the needs of the country.

'The incidence of taxation is governed very largely by political considerations,' declared Mr R. F. W. Sheraton (Great Britain and Ireland). 'Today, the doctrine of taxing by virtue of capacity to pay, has been carried far beyond the bounds of reason and we

are well aware of the almost insurmountable burdens, which certain sections of our people are shouldering.'

Asked another British Congress member, Mr G. H. Taylor, 'Should the incidence of taxation be used to control finance and to regulate social conditions? My personal opinion is a very definite "No".'

'So used, it becomes confiscatory, the benefits accruing cease to have any relation to the contributions made, avoidance becomes worth while, the taxing statutes become more and more confused, and it ceases to be possible for the general public to understand how they are being taxed.'

Commented Mr Taylor, amid laughter: 'Possibly good for our profession, but bad for the taxpayer.'

Canadian View

The Canadian viewpoint was explained by Mr Frank A. Coffey, chairman of the Legislation Committee of the Canadian Institute of Chartered Accountants.

An outline of the incidence of taxation in Denmark was given by Mr V. Spang-Thomsen.

It had been suggested by Mr Burr that the country's position would be improved if there was a transference of the State health service, as operated in Britain, to a self-supporting scheme, perhaps on a voluntary basis.

Mr Reg. Stacey (Great Britain) deprecated this. A comprehensive health service should be the first charge on the revenue of any civilized country, not only for humanitarian reasons but to see that the population were fit enough to make their contribution to the welfare of the State.

Mr Kearneau (Great Britain) thought that if the incidence of taxation was made more equitable it would be easier for the Government to raise the revenue. The professional bodies, he thought, should try and make alternative suggestions to the present system rather than merely accept it.

Government's Job

Another British speaker, Mr Cox, reminded delegates that taxation troubles would be solved only by the Government and not by the accountants. 'It is up to us to prepare accounts on a true and fair basis and let the Government make the adjustments,' he said.

A review of various suggested ways of computing profits had shown that there was no perfectly satisfactory way of doing this. 'I advocate the current basis of calculating depreciation,' he said. 'That will give the fairest profit.'

Mr Leslie Proctor, of Rossendale (Great Britain), suggested that the so-called difference between 'capital' and 'income' should be ignored. 'I do not appreciate at all why a fellow who makes £10,000 a year by a Stock Exchange transaction should be free from taxation in this country, and I, with my humble £10 a week, should not be.'

Malta's Prosperity

After describing various aspects of taxation in 'my island home', Mr P. Busuttil (Malta) added that because of its position in the world and its lack of natural products, Malta was prosperous if there was a war.

'If', he added, amid laughter, 'there is a cold war the going is fairly good and if there is peace Malta is heading for a crisis.'

Mr P. J. Tombleson (Great Britain and Ireland) said the currently heavy burden of taxation and its demoralizing effect were universally acknowledged and there was also general agreement that inflation had artificially increased taxable profits.

'But,' he declared, 'it is the projection of this position into a comparison of future taxable capacity with national obligations which merits attention.'

One of the preoccupations of the industrial accountant, he went on, was with the way that fixed charges impinge on varying volumes of revenue. In times of prosperity it was deceptively easy to increase fixed charges, but in times of depression their incidence became unmanageable. Similarly with taxation.

Government Accounts Obscure

Commenting on the fact that several speakers had said that Government accounts could not be understood, Mr P. L. Armstrong, a British member, said, 'If learned accountants cannot understand them, what hope is there for the taxpayer to do so?' It was the duty of accountants, he urged, to insist that Government accounts were as simple as possible so that the ordinary citizen knew how the money was spent.

The attitude of the people towards taxation showed the quality of their character, declared Mr D. A. Blofield, another British speaker.

Another result of high taxation was referred to by Mr W. S. Stobey (Great Britain and Ireland). In the old days, he explained, finance for small businesses and patents – risk capital – was available. Owing to high taxation at the present time, the situation had changed, and it was quite possible that from the economic point of view the country as a whole was losing quite a considerable amount of potential revenue.

'Keep Tax Burden' – U.S. View

A visitor from the U.S.A., Mr E. B. Wilcox, disagreed with the view that taxation was a burden which should be lifted from the people. Taxation was one of the best ways of spending co-operatively rather than individually, and one should abandon the conclusion that there was a percentage limit to what the community could contribute to taxation.

Neither should high taxation be regarded as a cause of inflation. As soon as any government needed a certain amount of money for necessary purposes, taxation which raised less than that amount resulted in deficit spending which was more inflationary than any of the indirect causes resulting from high taxation.

Mr Wilcox also criticized those who had put in a plea for equity and simplicity in taxation. 'You cannot have both,' he declared. 'The more simple you make your taxes the more inequitable they become and the more equitable you try to make them the more complex they become.'

The Optimum Point

The authorities should concern themselves with seeking an optimum point between complexity and inequity.

Mr P. F. W. Soper (Great Britain and Ireland) submitted figures to disprove the contention that high taxation, by removing incentive, had slowed down economic progress. Industrial production in 1950 was about 40 per cent higher than in 1946, he said.

A short outline of the history of taxation in the United States was given by Mr G. L. Weisbard.

Summing-up

First part of the summing-up came from Mr Burr, who said that professional accountants were not concerned only with the reduction of tax. All taxes, it was agreed, were unpleasant but, added Mr Burr, 'I hope this session has shown that we approach the subject readily, objectively and in the national and international interest.

'We hope that the verdict on this Congress, including the subject of taxation, will be, as suggested by *The Accountant*, characterized by honest thought and unremitting effort.'

Mr Burr went on to comment that a striking similarity of national conclusions on rates of taxation and their effects upon economic well-being was notable in the papers contributed.

There was a call for a return to the basic principles – equity, certainty, convenience and economy with, perhaps most of all, a greater simplicity and less wasted effort by reason of complexity.

Turning to the technical aspect, the speaker said there had been emphasis on the wide disparity between taxable profits and commercial profits. In Britain the Royal Commission was working towards a closing of the gap here.

He concluded, 'I hope our deliberations will not be lost in the political world, nor by the nation as a whole.'

Mr Green, the other introducer of the symposium, also contributed a summing-up. He said he had observed that at many accounting conferences the session on taxation was kept until the end.

'The men discussing the other papers,' he said, 'have gone out to relax, whereas the tax men are held in close confinement wondering how they are going to come out on the final day.

'Some people have suggested it is a theatrical trick to keep the audience's attention. I do not think it is so. I think probably taxation is covered on the last day to remind us that death and taxation are the two certain things in life.'

Speakers had agreed that taxes were too burdensome and too complex, and that since the ultimate incidence of tax must fall on the individual taxpayer such an onerous load could lead to only one result – a lowering of the standard of living.

'If it is generally agreed that the tax burden is so heavy,' went on Mr Green 'so as to be at the point of diminished returns, what can be done to remedy the situation?

'Our speakers and contributors almost unanimously felt something must be done to alleviate the burden. Just how such reduction should come about, however, was left somewhat lacking in clarity.'

Mr Green asserted, 'There must be a general world-wide effort to reduce government expenditure. That means not only a reduction in taxes themselves but elimination of the tendency to increase the debt of many countries, since deficit financing, for more than a score of years has been the pet scheme of spendthrift politicians.

'If economies are to be made, in what direction should they go?' asked Mr Green. 'When we do realize the type of world in which we live and the type of aggression we might have to meet it is not very easy to see how the military budget can be reduced.'

But that was not to say that a thorough auditing and reviewing of military expenditure should not be made.

It was not easy to find where economies could be made, but if ever a sincere effort to economize was needed, now was the time. Professional accountants must 'preach the gospel' of economy to their neighbours, clients and, particularly, to the legislators.

THE PRESIDENT'S CLOSING ADDRESS

'A great week' was the expression used by Sir Harold Howitt, President, to sum up the Sixth International Congress on Accounting when he gave his closing speech on Friday afternoon.

He declared, 'This has been a great week – for the sponsoring bodies and, I hope, for all of you visitors.'

Sir Harold went on: 'I said in my opening address that it was a pleasure to welcome all of you from all parts of the world. I hoped you would enjoy yourselves – and now I hope you have.'

'For us it has been a delightful week, making new friends and renewing old friendships.'

Visitors' Courtesy and Help

Those from oversea had been generous on many occasions, both private and formal, by expressing their thanks to their hosts, said the President.

'I personally feel,' he added, 'as President of this Congress that the thanks are due the other way, for I have been treated by you all in such a helpful and courteous way.'

The Congress had been made a success chiefly by the cheerfulness and goodwill of all the visitors. However good the organization was, if the human beings concerned did not co-operate, failure would result.

Co-operation the Keynote

'I want to say to you straight away that you as the human beings at this Congress co-operated right from the first meeting on Monday – and you have kept it up ever since,' Sir Harold told his listeners.

First of all he wished to thank the Vice-President, Mr C. Percy Barrowcliff, who had most ably supported him throughout the Congress. 'He has shared and sometimes halved the hand-shaking I have had to do,' added Sir Harold amid laughter.

He also wished to thank the Presidents of the sponsoring bodies – seven of them in all including Mr Barrowcliff again – for the most genuine support they had given to him.

'We have been a most happy party,' said Sir Harold, 'and I have not heard a single wry word. I know that not only they, but their various councils over the past months have spared no effort to make this Congress a success.'

He also thanked the Chairman of the Congress Council, Mr H. Garton Ash, O.B.E., M.C., and the Vice-Chairman, Mr A. Stuart Allen, and the Chairmen and Vice-Chairmen of all the other Congress committees.

A Word for the Ladies

'I would like to say a special word about the Ladies' Committee, from outside, which has provided those human touches with which a mere man cannot possibly cope,' said Sir Harold.

Thanks were also due to those volunteers, ladies,

members and students 'with those little yellow badges' who had contributed as liaison officers to the success of the Congress. Describing them as 'the oil which has really made the machinery work', he mentioned in particular their work last week-end in the registration office and on the conference tours.

'Also a word of thanks to the proprietors and editor of *The Accountant*', said Sir Harold, amid applause, 'not only for reporting our day-to-day business, but for the hospitality that they are extending to us this evening. No effort has been spared by them in a most difficult task most efficiently undertaken.'

Executive Staff Praised

Everyone was very conscious that the real work of the Congress had fallen upon the executive staff led by Mr Alan S. MacIver, M.C., the secretary, and Brigadier S. O. Jones, O.B.E., M.C., who had put up a remarkable performance.

'I think that those who have had no experience of running an international congress can have no conception of the problems which arise,' said the President, 'some of them of so domestic a nature that only a sense of humour can see one through.

'I have asked the executive staff to come on to the platform, and as I know you want to thank them, may I ask them to stand up?'

The executive staff stood and were given a special round of applause.

Congress in Five Years

The President's final word of thanks was to the sponsoring bodies for the compliment they had paid to him in asking him to be the President. It was a great honour which he had appreciated very deeply.

'At a meeting yesterday of all the accountancy bodies here represented', went on Sir Harold, 'the general feeling was expressed that a further international congress should be held on lines generally similar to those of the present Congress and, perhaps, in about five years' time.

'Generous offers are already forthcoming from potential hosts and a plan has been agreed whereby these and other possible invitations should be considered by those concerned with a view to the selection of the most suitable meeting place.

'If the next congress should be held on the continent of Europe, the question of language will arise as it did at earlier congresses of this series in Amsterdam and in Berlin – as it did also in Paris in 1948.

Language Difficulties

'I want to make it clear to those who may have had some difficulty this week with our English, that practical difficulties alone, including the question of expense, made it necessary to have one language only. It goes without saying that when the selected host for the next congress takes over, any experience which we have gained here will be made readily available.'

Sir Harold said he would not attempt to summarize in any way the papers discussed during the week – it would be ridiculous to attempt it – but he thanked all those who had contributed to them, especially the rapporteurs whose task had been difficult.

'I said at Guildhall on Wednesday that it is not only a privilege but a responsibility to be members of a calling – a calling which is now universally regarded as a profession with all that this implies – to serve with integrity, ability, hard work and a very special regard for the interests of one's clients and of the public at large.

Tact and Firmness

'It requires this, whether we work in the professional field or have chosen instead – as many of us have done – a government or commercial career. It requires tact and firmness to deal with the strain imposed by inflation and high taxation on business ability and even on commercial morality of normally honest people.'

It was easy to say these things, the President warned, and they represented qualities required by many people other than accountants.

Sir Harold went on, 'It is, however, one of the main purposes of professional congresses to keep such ideals alive and bright.

'Another purpose is to foster and improve international relationships. I hope and believe we have succeeded in both these objectives.

Boyhood Memories

'It was William Shakespeare who said "Parting is such sweet sorrow" and although with boyhood memories one cannot say that this always applies to "end of term" proceedings, I hope it is in some measure true today. It is probably too much to hope that we shall all meet again, but I hope many of us will and that many friendships have been formed which will endure. Subject to the remaining functions this evening, I now declare the proceedings of this International Congress on Accounting terminated.'

Expressions of appreciation of the hospitality received by the visitors to the Congress were made by Mr T. A. Hiley, of Australia, and Mr G. P. Kapadia, of India.

OTHER SOCIAL ACTIVITIES

Congress Ball

The final event of the successful week in London was the Congress Ball held on Friday, June 20th, at *The Savoy Hotel.*

The entire suite of Banqueting Rooms on the river side of the hotel were at the disposal of the Congress. The huge vase of red gladioli and peonies in the foyer was one example of the beautiful floral decorations throughout the rooms.

In the big Lancaster Ballroom, the parquet floor gleamed beneath crystal chandeliers. At one end were small tables for those not dancing. On the stage were twelve musicians of Carroll Gibbons' Blue Room Orchestra who played for dancing until 2 a.m. Carroll Gibbons himself made a personal appearance during the evening. Round the dance floor pedestals topped with more vases of flowers reflected in the mirror panels behind.

A buffet supper for the guests was set out on long tables in the downstairs rooms. The River Room above the ballroom was also prepared for supper with tables for large parties who could enjoy the view over the Thames.

During the ball, the prizes for Thursday's golf competitions were presented by Lady Howitt.

Congress Caricatures

We reproduce in the adjoining column the first of the series of daily caricatures by 'Mac' which appeared in '*The Accountant*' *Congress Daily News*.

The Accountant Cocktail Party

All members of the Congress from oversea, together with officials of the Congress and chairmen of committees, were entertained on Friday, June 20th, at a cocktail party given by Mr Ronald Staples, Editor-in-Chief of *The Accountant*, and Mr Derek du Pré, Editor, at Grosvenor House.

The guests were greeted by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., President of the Congress, and Lady Howitt, Mr C. Percy Barrowcliff, F.S.A.A., Vice-President of the Congress, and Mrs Barrowcliff, together with Mr and Mrs Derek du Pré.

It was a great disappointment to the guests that, as had already been announced, Mr Ronald Staples was unable to receive them as he has not yet completely recovered from his unfortunate accident. It is good news, however, that he is now making a rapid recovery.

Government Reception

On Thursday evening, 250 Congress delegates attended a Government Reception at the Tate Gallery, and were received by the Secretary for Overseas Trade, Brigadier H. R. Mackeson, M.P. for Folkestone and Hythe.

Theatre Parties

Ladies of delegates, visitors and members, together with those visitors and members for whom accommodation was not available at the banquet in Guildhall, attended the theatre on the Wednesday night.

Visits to Scotland and Ireland

Many members took advantage of the invitation of Scottish and Irish professional bodies to spend a few days in one of those countries. The programmes were reproduced in our issue of June 7th.

Private Entertainment

ADDITIONAL HOSPITALITY FOR CONGRESS VISITORS

In his opening address, the President stressed the intention of the Council of the Congress and, indeed, of all members of the sponsoring bodies, to make visitors from abroad feel welcome at all times.

The full official programme allowed but little time for private hospitality and entertainment which a[ll] were eager to offer, though by feats of careful timing many of the guests gave pleasure to their hosts by accepting private invitations.

Mr Alan S. MacIver, M.C., Secretary of The Institute of Chartered Accountants in England and Wales entertained parties including the secretaries of th[e] American Institute of Accountants and the Canadi[an] Institute of Accountants, and on another occasion, [the] President of the American Institute and his fami[ly] and the Immediate Past President of the Institute an[d] his family.

At the invitation of the Society of Incorporated Accountants and Auditors, women members of the various accounting bodies represented at the Congress were given the opportunity of meeting each other and exchanging ideas at an informal luncheon at Incorporated Accountants' Hall. Miss Phyllis Ridgway, member of the Council of the Society, acted

hostess and the Hall was a lovely setting for a very happy party.

Two other luncheon parties were held in the historic surroundings of ancient livery companies. The Association of Certified and Corporate Accountants entertained a number of delegates and visitors at Armourers' Hall, where guests were received by the Rt. Hon. Lord Latham, J.P., F.A.C.C.A., President of the Association, while a second party gathered in Apothecaries' Hall on the invitation of the Institute of Municipal Treasurers and Accountants. At both functions the guests were fascinated by their surroundings and showed keen interest in the history of the Armourers and Brasiers Company and the Worshipful Company of Apothecaries.

About fifty oversea visitors were the guests of the Institute of Cost and Works Accountants at a luncheon in the Council Chambers at Institute Headquarters, Portland Place. They were welcomed on behalf of the Institute by the President, Mr S. C. Tyrrell, F.C.W.A., F.I.I.A.

Delegates from the Netherlands and friends were guests of the partners of a London firm of Chartered Accountants at dinner at *The Savoy Hotel*.

All these functions were of an informal friendly nature, and provided opportunities for personal contact with visitors from oversea.

WEEKLY NOTES

Birthday Honours

In our issue of June 14th it was our privilege to congratulate certain members of the profession whose names appeared in the Birthday Honours List. We now have pleasure in congratulating Mr Cyril R. Stephens, M.A., F.C.A., who has been awarded the O.B.E. for services as national president of the British Limbless Ex-Servicemen's Association.

Production Costs – Contrary Trends?

During May the trend of wholesale prices continued to be downwards. In fact, the Board of Trade's index of basic materials reached the lowest level it has recorded since October 1950. Since the index was at its peak in March of last year, it has fallen off by about 26 per cent. The largest falls on the month were in rubber and in zinc, but there were others which also recorded sizeable declines and wool was the only one to harden. A newcomer to the ranks of lower prices last month was the group of building materials.

It now remains to be seen whether the drop in raw material costs will cause a reduction in production costs in industry once high-cost stocks have been reduced (and in many cases this should now have occurred), or whether falls in this quarter are offset by the granting of higher wages. Two of the largest unions, the miners and the engineers, have tabled demands for higher earnings. If they are granted anything near their demands, the higher wages bill will react severely on costs through the price of coal and of engineering products.

At the moment the decline in costs of materials is probably just achieving a deflationary effect. This could be more than wiped out if wages go up over the summer months unless the increases are accompanied immediately by higher output.

Productivity in Cotton Spinning

There is almost an irony in publishing at this moment a résumé of the recent efforts of the cotton-spinning industry to increase productivity. The industry's outlook at the moment, whether it is assessed in terms of unemployment or foreign competition, is the worst since the war. For cotton, the last twelve months have seen a complete swing over from a sellers' to a buyers' market. The Anglo-American Council on Productivity has nevertheless gone ahead with a report, which is now published, on the recent advances made in the industry with the introduction of work study methods, and the introduction of more up-to-date machinery. This investigation has been made with the aid of the Federation of Master Cotton Spinners' Associations and the Cotton Yarn Doublers' Association.

These associations have been active in ensuring that the lessons learned by the teams which went to the United States to see American spinning and doubling methods have been promulgated round the industry. The report now published gives several interesting cases where the team's visit and improved methods have an obvious correlation.

What is not apparent to the layman is how far these impressive improvements are representative of general advances throughout the industry. It is to be hoped that they are, for the industry has before it a period of severe competition in foreign markets and increased price consciousness at home. The immediate past was a halcyon time of comparative quiet, when the climate was conducive to bold changes for those who had the enterprise to make them. Its like may not come again for a long time.

Confusion in Copper

The Ministry of Materials has decided to suspend sales of copper to United Kingdom consumers, apart from sales against actual June allocations, for several days. It may be possible that there will be a further announcement after this issue goes to press. Meanwhile, the copper price situation illustrates the difficulties which arise when an effort is made to insulate world commodity prices in particular markets from the price in the free market. Both in this country and the United States the price of copper to domestic consumers is fixed to some extent independently of ruling world prices and for some time the free world price has been considerably higher than the American or the British price. Now the American price is feeling the influence of the world price. Since the British price is based on the American price, the British price is under the same influences at one remove.

FINANCE AND COMMERCE

Stock markets in London are particularly idle at the present time. There is no desire to enter upon new business and the selling which reaches the market seems to be largely on behalf of those who are forced to raise money to finance their business activities owing to curtailed financial assistance from the banks. British funds have moved to still lower price levels and other sections of markets have followed suit.

Auditors Differ

The wording of the report of Messrs Deloitte, Plender, Griffiths & Co, Chartered Accountants, on the accounts of the Hudson's Bay Company seems to point to a difference of opinion between auditors and directors. The company shows in its Group balance sheet, 'Equipment and net book value at January 31st, 1948, with additions at cost, £415,184', and 'Ships and aeroplanes at cost, £216,615', the total of the two items being written down to a nominal £1 by an appropriation from general reserve – revenue. We reprint the consolidated accounts this week.

The directors' opinion is that 'both the cost and present value of the equipment is substantially in excess of the amounts shown in the balance sheet, but the ascertainment of the cost or present value would, even if practicable, involve very considerable delay in the presentation of the accounts, and it has therefore been considered desirable to make it clear to proprietors that the balance sheet valuation of equipment, ships and aeroplanes is purely nominal'.

The auditors certify that the balance sheet gives the information required by the Act in the manner so required 'except that a proportion of the general reserve – revenue has been deducted from fixed assets and not included in revenue reserves'. 'General reserve – revenue', we should add, must be read in the light of the fact that there is a 'general reserve – capital'.

New Term Needed

The present discussion on the standardization of accounting terminology might well be made to include the desirability of finding a new expression for bonus shares. Those who understand the book entries which effect these capital issues know well that 'bonus' is a misnomer. Those who do not or will not – and there are none so blind as those who will not see – use such issues as fuel to foment trouble.

One company chairman recently pointed out to shareholders that the capitalization of reserves would add nothing to shareholders' interests in the business, and explained why they should not sell the shares so issued. There was no likelihood of a dividend increase and they would in fact be selling future income.

The advice, in effect, is repeated again by Sir Frederick Godber, the chairman of the 'Shell' Transport and Trading Co Ltd. 'Bonus', he insists, 'is completely misleading'.

Another point emphasized by Sir Frederick is that it is undesirable to continue to show in the accou the feature of 'carry forward'. Profits compri within this phrase, he says, are in no way different fron other profits retained in the business as, for example general and other reserves, and the distinction, h maintains, is apt to be misleading. The term nov used is 'Unappropriated revenue carried forward'.

New Assets Valuation

The extract from the Group balance sheet of Wilmot-Breeden (Holdings) Ltd, shows the effect of the adoption for the fixed assets of a December 31st, 1948, valuation which was included in the July 1949 publication of particulars when the shares were marketed.

Mr D. L. Breeden, the chairman, gives two reasons for so doing. In the first place, he says, a High Court judgment of November 1951 affecting the affairs of another company requires the Wilmot company to credit share premium account with the excess of the value of its subsidiary's shares acquired by the company over the nominal value of the shares issued in exchange. In effect, he says, this means that the 1948 valuation must be adopted; hence in the subsidiary's accounts, it is consistent that fixed assets be written up in accordance with the valuation. He makes the further point that the 1948 figures, even though it means that the assets still stand on a conservative basis, give a truer picture of the group's finances.

There is the further advantage, he continues, tha charges for depreciation and obsolescence are more realistically based on the new asset figure at £153,43 against £90,224. In the same context, and not as a appropriation, there is a transfer of £46,569 agains £100,000 to reserve towards increased cost of replacement of fixed assets.

1950 £	1950 £		1951 £	1951 £
		Fixed Assets as valued by Messrs Alexander Smith & Sons at December 31st, 1948, with subsequent additions at Cost, less Disposals		
	307,383	Freehold Land and Buildings	773,615	
	62,24	Leasehold Land and Buildings	77,721	
	800,91	Plant and Machinery, Installations, Fixtures, Equipment, and Motor Vehicles ..	1,110,409	
1,170,541				1,961,74
		Deduct **Accumulated Depreciation**		
	18,037	Freehold Land and Buildings ..	76,428	
	4,73	Leasehold Land and Buildings	6,367	
	213,482	Plant and Machinery, Installations, Fixtures, Equipment, and Motor Vehicles ..	305,342	
236,252				388,1
£934,289				£1,573,60

Money Market

Treasury bill applications for last week totalled £301,065,000, compared with £310,425,000 previously. Tenders at £99 7*s* 10*d* received 77 per cen of requirements. Average discount rates worked ou at £2 8*s* 8·25*d* per cent against £2 8*s* 0·36*d* per ce the previous week.

HUDSON'S BAY COMPANY & SUBSIDIARIES

Consolidated Profit and Loss Account for year ended January 31st, 1952

1951 £		£	£
	I. Consolidated Profit and Loss Account		
2,689,777	Balance from Trading Account and Net Revenue from Land Department		2,525,639
274,586	*Less* Depreciation	279,294	
283,569	Provision for Replacements (and	281,304	
(50,000)	Special Allocation £51,020)		
20,000	Provision for Staff Pensions	46,786	
7,700	Directors: Fees	7,700	
30,793	Other Emoluments	32,886	
616,648			647,970
2,073,129	Net Trading Profit		1,877,669
3,611	Trade Investments (including non-recurring item £16,622)		20,569
25,836	Other Investments		20,766
33,382	*Provisions no longer required*		—
2,135,958	**Consolidated net Profit before Taxation**		1,919,004
	Less Taxation on the Profits of the year: Overseas Income Tax:		
555,000	Parent .. £573,809		
178,730	Subsidiaries .. 415,749		
733,730		989,558	
	United Kingdom:		
722,000	Parent: Income Tax .. 505,000		
283,000	Profits Tax and Excess Profits Levy .. 345,000		
1,005,000	850,000		
555,000	*Less* Estimated Double Taxation Relief 575,000		
450,000		275,000	
			1,264,558
952,228	**Consolidated net Profit after Taxation**		654,446
285,465	*Less* Amount retained by Subsidiaries		254,741
	II. Hudson's Bay Company Appropriation Account		
666,763	Net Profit available for distribution		399,705
159,502	*Less* Net Interim and Proposed Final Dividends	196,263	
5,628	Transfer to General Reserve	100,000	
400,000	*Transfer to Special Merchandise Reserve*	—	
565,130			296,263
101,633			103,442
315,741	*Add* Undistributed Balance at January 31st, 1951		417,374
£417,374	Per Balance Sheets		£520,816
	III. The Subsidiaries Profits have been dealt with as follows:		£
£285,465	Net Profit		254,741
813,123	*Add* Undistributed Balance at January 31st, 1951		1,058,830
1,098,588			1,313,571
29,033	*Less* Transfer to General Reserve – Revenue		32,056
10,725	*Amount required to eliminate Subsidiary's Goodwill*		—
39,758			
£1,058,830	Per Consolidated Balance Sheet		£1,281,515

Land Account for year ended January 31st, 1952

1951 £		£	£
283,646	Receipts from Sale of Lands		218,692
7,634	Other Receipts		5,722
291,280			224,414
29,315	*Less* Expenses of Administration and Taxes	27,085	
72,480	Transfer to Capital Reserve Fund	75,575	
101,795			102,660
189,485	Balance available for distribution		121,754
818,686	*Add* Undistributed Balance at January 31st, 1951		905,391
1,008,171			1,027,145
124,612	*Less* Interim and Proposed Final Distributions		124,611
883,559			902,534
21,832	*Add* Exchange Surplus		64,528
£905,391	Per Balance Sheets		£967,062

Extract from Notes on the Accounts

3. – (*a*) All Fur Post Expenditure on Equipment and Buildings other than that undertaken by Rupert's Land Trading Company, which has been capitalized, has been charged to Profit and Loss or to Provision for Replacements. During the year expenditure amounting to £34,014 (1951 £33,333) for part cost of rehabilitation of those buildings has been charged to Provision for Replacements. The Fur Post Buildings in remote areas have been omitted from the Balance Sheets as if removed from their actual locations they have no value.

(*b*) In other departments all Replacements of Equipment, Ships and Aeroplanes subsequent to January 31st, 1948, have been charged to Provision for Replacements.

(*c*) In the opinion of the directors, both the cost and present value of the Equipment is substantially in excess of the amounts shown in the Balance Sheet, but the ascertainment of the cost or present value would, even if practicable, involve very considerable delay in the presentation of the accounts and it has therefore been considered desirable to make it clear to proprietors that the Balance Sheet valuation of Equipment, Ships and Aeroplanes is purely nominal.

HUDSON'S BAY COMPANY AND SUBSIDIARIES

Consolidated Balance Sheet January 31st, 1952

1951 £		£	£
2,492,224	**Share Capital**		2,492,224
	Capital Reserves		
504,875	Capital Reserve Fund	580,450	
1,496,324	Share Premiums	1,496,324	
1,747,369	General Reserve	1,848,534	
1,735,468	Balance of Unrealized Surplus on Exchange	2,256,550	
5,484,036			6,181,858
	Revenue Reserves and Surplus		
3,861,967	General Reserve	3,063,233	
400,000	Special Merchandise Reserve ..	870,671	
	Undistributed Profits:		
	Hudson's Bay Company £520,816		
	Subsidiaries 1,281,515		
1,476,204		1,802,331	
905,391	Undistributed Surplus – Land Account..	967,062	
6,643,562			6,703,297
14,619,822	**Total Capital and Reserves** ..		15,377,379
	Taxation		
	Future United Kingdom Income Tax (1952–53)	250,000	
	Deferred Income Tax on Initial Allowances	165,000	
503,000			415,000
	Provision		
1,361,171	Taxation	1,507,628	
614,500	Staff Pensions and Welfare	661,285	
1,975,671		2,168,913	
1,183,170	Replacements of Equipment, Ships and Aeroplanes	1,274,295	
	Current Liabilities		
3,831,140	Creditors and Accrued Charges ..	3,483,847	
	Proposed Distributions:		
104,673	Trading (net)	143,926	
62,306	Land Account	62,306	
7,156,960			7,133,287
	(The notes are not reproduced. – Editor.)		
£22,279,782			£22,925,666

1951 £		£	£
	Fixed Assets		
8,325,736	Land and Buildings at cost ..	8,730,539	
3,413,012	*Less* Depreciation	3,681,389	
4,912,724			5,049,150
398,445	Equipment at net book value at January 31st, 1948, with additions at cost	415,184	
224,927	Ships and Aeroplanes at cost	216,615	
		631,799	
—	*Less* Amount appropriated from General Reserve to reduce to nominal value..	631,798	
			1
5,536,096			5,049,151
	Trade Investments		
45,190	Investments at cost	45,190	
203,333	Advances to Hudson's Bay Oil & Gas Co Ltd	462,500	
248,523			507,690
	Current Assets		
(£801,635) 7,790,184	Merchandise and Furs, and Post Current Accounts since June 30th, 1951, after deducting net realizations of Post Furs since that date (£625,921)	9,471,406	
5,048,606	Debtors and Payments in Advance	5,664,249	
64,909	Redemption Policies – Surrender Value	69,347	
	Government Securities:		
(£634,313) 524,462	United Kingdom (Market Value £372,083)	318,336	
(£89,125) 89,286	U.S.A. (Market Value £359,173)	358,895	
(£330,500) 332,333	*Canada*	—	
16,736	Loan to British Local Authority	16,206	
—	Tax Reserve Certificates ..	253,150	
	Balances at Bankers and Cash in hand .. £1,404,016		
	Less Bank Overdrafts 186,780		
1,528,647		1,217,236	
16,495,163			17,368,825
	Land Department		
	Assets not brought into account – see Note 10		
£22,279,782			£22,925,666

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases.*

Thomas *v.* Marshall

In the Court of Appeal

May 13th, 1952

(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice BIRKETT and Lord Justice ROMER)

Income-tax – Settlement on children – Deposits in Post Office Savings Bank in names of children – Drawings expended for children's benefit – Gifts of Defence Bonds to children – Whether sums thus drawn and Defence Bond interest income of parent – Whether separate assessments not exceeding £5 each possible – Finance Act, 1936, *Section* 21 – *Finance Act,* 1938, *Sections* 38 (2), 41 (4) (*b*).

The appellant paid a number of sums of money into accounts at the Post Office Savings Bank in the names of his two infant and unmarried children. Some of the money thus deposited was expended for the children's benefit. The appellant also gave Defence Bonds to each of his children.

It was contended for the appellant that the gifts of the sums placed in the Post Office Savings Bank and the gifts of the Defence Bonds, were not 'settlements' within Section 21 (9) (*b*) of the Finance Act 1936. The General Commissioners decided against the appellant.

Held (affirming the judgment of Mr Justice Donovan), that the gifts of the sums of money placed in the Post Office Savings Bank, and the gifts of the Defence Bonds, though out-and-out gifts to the children, were settlements within Section 21 (9) (*b*) of the Finance Act, 1936.

Ion v. Bentleys, Stokes & Lowless

In the Court of Appeal

May 21st, 1952

re the MASTER OF THE ROLLS (Sir RAYMOND VERSHED), Lord Justice BIRKETT and Lord Justice ROMER)

e-tax – Solicitors – Entertainment expenses – s rendered to clients at lunches – Whether cost tes deductible – Income Tax Act, 1918, Schedule es I and II, Rule 3 (a).

respondent firm consisted of two partners g on the profession of solicitors in the City of h. It was the practice of the firm for the part- take clients to lunch and discuss the clients' s there, and for the cost of the lunches to be l in the firm's profit and loss account. This e was confined to existing clients, and only the was present at the lunch with the partner who d to that client's business. This practice was enient to the clients and to the partners, for the ts were usually free only at lunch time, and the ers were able to devote the remainder of the to the routine work of the office. The Law ety considered that the entertainment of existing ts was not unprofessional. The advice given to its at lunch was charged for in the normal way, the cost of lunches was not included in the charge the clients.

The Special Commissioners were 'unable to say at it was necessary for the purposes of transacting e business in hand or for the profession generally', o provide meals or other refreshment on these ccasions. They were unable to conclude that the noney spent on entertainment of clients was ex- pended solely for the purposes of the profession, 'and were entirely divorced from the element of hospitality nd the relationship of host and guest'.

Held (affirming the judgment of Mr Justice Roxburgh), that there was no evidence to support hese findings; that although the partner had the benefit of a meal gratuitous to him, that circumstance was not a sufficient reason for holding that the unches were not business transactions; and that the cost of the lunches was a deduction in computing the firm's profits for tax purposes.

James Snook & Co Ltd v. Blasdale

In the Court of Appeal

May 14th, 1952

(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice BIRKETT and Lord Justice ROMER)

Income-tax – Compensation for loss of office – Sale of shares in company – Payment to retiring directors as compensation for loss of office – Whether sums so paid deductible in company's tax computation – Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3 (a).

The shareholders in the appellant company agreed to sell their shares to another company, and the directors, who were also the main shareholders, agreed to resign their offices as directors. The pur- chasing company agreed to procure that the appellant company should pay £32,492 to the retiring directors as compensation for the loss of their offices, and to pay £1,128 to the auditor as compensation for the loss of his office. After this agreement had been executed it was decided that two of the directors should continue to hold office, and they did not receive any compensation, so that the actual amount of compensation paid was £31,818. This sum was subsequently paid in varying amounts to the two retiring directors, and to the retiring auditor. The resolution for the payment was passed at a general meeting of the appellant company, but there was no evidence as to whether the resolution was passed in order to carry out the vending agreement, or in order to advance the company's business.

It was contended on behalf of the appellant com- pany that the £31,818 was wholly and exclusively laid out or expended for the purpose of that com- pany's trade, and that it was deductible in computing the company's profit for tax purposes. The General Commissioners rejected this contention, and con- firmed the assessment in an agreed amount.

Held (affirming the judgment of Mr Justice Donovan), that the General Commissioners' decision was correct.

NOTES AND NOTICES

Personal

MESSRS CAMP & Co, 33 Great Charles Street, Birmingham, 3, announce that as from July 1st, 1952, they are taking into partnership Mr E. J. G. WOODING, A.C.A. The name of the firm will remain unchanged.

The partners of Messrs PEAT, MARWICK, MITCHELL & Co and Messrs HOWARD J. McDOUGALL & Co announce that effective July 1st, 1952, their practices will be combined and thereafter carried on as PEAT, MARWICK, MITCHELL & Co, Chartered Accountants, with offices at Saint John, N.B., Moncton, Frederic-

ton St John's, Newfoundland, Montreal, Toronto, Hamilton, Winnipeg, Calgary, Edmonton, Vancouver. The present partnership of HOWARD J. McDOUGALL & Co, consisting of Mr HOWARD J. McDOUGALL and Mr C. D. DRYSDALE, is being dissolved as of June 30th 1952. Mr C. D. DRYSDALE is returning to the United Kingdom, and Mr HOWARD J. McDOUGALL will become a partner of PEAT, MARWICK, MITCHELL & Co, with offices at 344 Duckworth Street, St John's, Newfoundland.

Professional Note

Mr W. R. Carter, M.A., F.C.A., a partner in the firm of Carter Chaloner and Kearns, Chartered Accountants, of Manchester, has been appointed a director of Freedlands Ltd.

Sheriff of the City of London

Mr S. H. Gillett, M.C., F.C.A., senior partner in the firm of Dixon, Wilson Tubbs and Gillett, Chartered Accountants, of Basinghall Street, London, was elected a Sheriff of the City of London on June 24th.

Mr Gillett is a member of the Council of the Institute, a member of the Committee of the London and District Society of Chartered Accountants, and President of the Chartered Accountant Students' Society of London.

Revenue Paper: Trinity Sittings, 1952

COURT OF APPEAL

The following cases are down for hearing in the Court of Appeal:

Faulconbridge *v.* Thomas Pinkney & Sons.
The Manchester Corporation *v.* McIntosh (Inspector of Taxes).
Moschi *v.* T. Kelly (Inspector of Taxes).
C.I.R. *v.* Chappie Ltd.
E. A. F. Fenwick *v.* C.I.R.

CHANCERY DIVISION

The following cases are down for hearing in the Chancery Division:

A. & J. Mucklow Ltd (in liquidation) *v.* C.I.R.
Phillip Hutton *v.* C.I.R.
C.I.R. *v.* Walker Cain Ltd.
D. Morgan (Inspector of Taxes) *v.* Tate & Lyle.
North Central Wagon & Finance Co *v.* A. Fifield (Inspector of Taxes).
A. S. G. Hawkins (Inspector of Taxes) *v.* Dr Leahy; Dr Leahy *v.* A. S. G. Hawkins.
Arthur H. Worth *v.* C.I.R; C.I.R. *v.* Arthur H. Worth.
C.I.R. *v.* George Arthur Worth.
C.I.R. *v.* Alexander Hay.
V. E. W. Ltd *v.* J. P. Bolland (Inspector o
F. Bridges (Inspector of Taxes) *v.* J. J. Byrne
F. Bridges (Inspector of Taxes) *v.* H. A. Wat

National Insurance Act, 1946

SECOND INTERIM REPORT BY THE GOVERNM ACTUARY

The Second Interim Report by the Gover Actuary,[1] published as a White Paper on June reviews the working of the National Ins Scheme during the year ended March 31st, 1

This report is the second of a series of reviews under Section 39 (1) (*b*) of the N Insurance Act, 1946, and is concerned only w operation of the scheme during the year 1 In addition to these reviews a comprehensive will be made in due course under Section 39 of the Act covering the whole period from Ju 1948, to March 31st, 1954, and reporting o financial condition of the National Insurance and the adequacy or otherwise of the contribu payable.

The Institute of Actuaries

The results of the examinations of the Institut Actuaries held at eight centres throughout United Kingdom and Eire from April 28th to l 9th last, have now been announced. Twenty-t candidates have qualified for fellowship of Institute and fifteen for associateship.

Letters to the Editor

The Editor regrets that by reason of the space occup by the report of the International Congress, the corresp dence columns are necessarily excluded from this issue.

Recent Publications

THE COST OF INDUSTRIAL MOVEMENT, by W. F. Lutt ix + 104 pp. 9½ × 6½. Paper cover. 18*s* net. Cambri University Press, London.

SELECTED READINGS IN ACCOUNTING AND AUDITING, Mary E. Murphy, PH.D., C.P.A. x + 431 pp. 8½ × Prentice-Hall Inc., New York.

FLEXIBLE BUDGETARY CONTROL AND STANDARD COSTS D. F. Evans-Hemming, F.C.W.A., F.R.ECON.S. x + 184 and Appendix (diagrams). 10 × 7½. 42*s* net. Macdo & Evans Ltd, London.

THE HISTORY AND ETHICS OF INTEREST, by Arthur Bi Senior Lecturer in Economic History, Edinbu University. 40 pp. 8½ × 5½. Paper cover. 3*s* 6*d* William Hodge & Co Ltd, London, Glasgow Edinburgh.

EXAMINATION QUESTIONS ON EXECUTORSHIP LAW ACCOUNTS TOGETHER WITH ANSWERS THERETO, T Edition, by R. Byrne, A.C.A., A.S.A.A., F.C.I.S. 270 6½ × 4½. 10*s* net; by post 10*s* 3*d*. Students' Publicat Ltd, 9 Orchard Drive, Woking, Surrey.

[1] H.M.S.O., 9*d*.